FINANCIAL INSTITUTIONS AND INDIVIDUAL DEVELOPMENT ACCOUNTS:

Results of a National Survey

October 2003

Center for Community Capitalism
The Frank Hawkins Kenan Institute of Private Enterprise
The University of North Carolina at Chapel Hill

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EXECUTIVE SUMMARY

Individual Development Accounts (IDAs) have gained significant acceptance among financial institutions, policy makers, philanthropic organizations, and social service practitioners as an important strategy for promoting wealth among low- and moderate-income (LMI) individuals and communities throughout the United States. Since their inception in the 1990s, IDAs have been pioneered by unique partnerships between financial institutions and nonprofit organizations that collaborate to enroll qualified applicants in matched savings programs and financial literacy training curricula. Successful participants graduate from the programs with savings grants that match their personal savings and generally are applied towards one of three asset-building goals: homeownership, education, or capitalization of a small business. To date, public funding, primarily from federal sources, has provided the bulk of the match savings resources.

Building from two national demonstrations that together have capitalized at least 190 IDA programs—the American Dream Demonstration, funded by private foundations, and the Assets for Independence demonstration, funded by the U.S. Department of Health and Human Services—IDA practitioners have collected and are analyzing the impact of IDAs on wealth development from the perspectives of both the program provider and the participant.

The Center for Community Capitalism's Financial Institution Survey of Individual Development Account Programs was designed to describe the role of financial institutions and assess the ways they can help bring IDAs to a national scale. In particular, we sought to assess how well the tax credit approach proposed for financial institutions that sponsor and provide match funds for IDAs might work to achieve scale. To answer that question, we needed to know more about financial institutions' experiences with and attitudes toward the matched savings concept.

To accomplish these objectives, the Center for Community Capitalism undertook a telephone survey of all financial institutions currently engaged in IDA programs. This report details these significant observations and findings from that survey:

Financial institution participation in IDA programs is significant.

- Our research identified 339 financial institutions sponsoring a total of 463 matched savings programs nationwide in the fall of 2002, including:
    - 216 unique financial institutions involved in 338 IDA programs; and
    - 123 member institutions of the Federal Home Loan Banks of New York and Seattle engaging in 125 down-payment matched savings programs.
- 81% (167) of IDA-sponsoring financial institutions are commercial banks and thrifts, while 19% (49) are credit unions.
- Banks sponsor 86% (288) of all IDA programs, compared to 14% (50) sponsored by credit unions.

- 89% of participating banks are small to medium-sized, with assets of $20 billion or less.
- 54% of participating credit unions are small, with assets of $50 million or less.
- Larger financial institutions are overrepresented in the IDA-sponsoring population:
    - Banks with assets greater than $500 million comprise half of bank IDA sponsors but only 11% of the nationwide bank population.
    - Credit unions with assets greater than $100 million represent 37% of the credit union IDA population, compared to 11% of the nationwide population.
- 78% of IDA programs have 50 or fewer active accounts.
- Larger banks (assets greater than $1 billion) sponsor 79% of medium-sized (51-100 accounts) programs and 84% of large (more than 100 accounts) programs.
- The West has the largest proportion (33%) of IDA programs, while Northeast has the smallest (19%).

Financial institutions involved in Individual Development Account programs express long-term commitment to IDAs, motivated by community relations and community development.

- Financial institution sponsors of 98% of IDA programs are likely to remain involved in IDAs over the long term.
- 90% of programs' sponsors are planning to increase number of accounts.
- Banks sponsoring 46% of IDA programs report that there are no immediate issues standing in the way of expanding the number of accounts they manage.
- 86% of IDA programs are sponsored by financial institutions that cite community development as their motivation for sponsoring IDA programs.
- For 45%, investment in a new market segment is a motivation for IDA sponsorship.

Financial institutions rely heavily on their nonprofit partners for successful implementation and operation of IDA programs.

- Financial institutions hosting 56% of current IDA programs would not offer an IDA program without a nonprofit partner; sponsors of 71% of large programs feel this way.
- 71% of all IDA programs evolve from an existing relationship between the financial institution and the nonprofit organization.
- Financial institutions in 52% of IDA programs, and 70% of large programs, provide direct financial support to the programs.
- Financial institutions in 86% of IDA programs are willing to share a proposed administrative tax credit with their nonprofit partners.
- In 76% of bank programs and 55% of credit union programs, the nonprofit partners are responsible for providing financial literacy training. Moreover, nonprofit partners are responsible for marketing and recruiting in 86% of all IDA programs.
- Nonprofit partners in 65% of IDA programs assist financial institutions in reviewing applicants' banking histories

- Financial institutions in 71% of IDA programs generate monthly account statements.
- Electronic reporting to the nonprofit partner is used by financial institutions in only 29% of IDA programs.
- In 78% of IDA programs, the nonprofit partner tracks the accumulation of match funding as well as regular deposit activity, communicating this information to the participant on an account statement along with some or all of the standard account information produced by the financial institution.
- Before expanding their IDA involvement, financial institutions sponsoring 30% of medium and large IDA programs (18% of all IDA programs) see a need for their nonprofit partners to improve their capacity to manage the programs efficiently.
- Financial institutions that sponsor 76% of IDA programs support regional collaboratives.

Financial institutions, consistent with their community development orientation to IDA involvement, frequently waive basic account fees and procedures for IDA participants and otherwise take a relatively relaxed approach to the business and profit-making aspect of IDAs.

- 66% of bank-sponsored IDA programs and 43% of credit union programs modified existing products for their IDA accounts.
- Banks and credit unions offer a number of similar features in their IDA accounts, including waiving monthly account fees and transaction fees; using basic, interest-bearing savings accounts; and offering balance inquiries and transfers by phone as well as automated transfers.
- Direct deposit is offered in 93% of IDA programs.
- While accounts in 79% of IDA programs are fully owned by the participant, the remaining 21% of programs implement different account ownership structures to maintain accountability.
- 57% of IDA programs verify banking histories of IDA applicants using ChexSystems or other similar commercial reporting services, but 72% of these programs will not automatically disqualify an applicant because of a problematic banking history identified by the review
- In 63% of IDA programs, financial institutions will accept alternate IDs, such as the *matricula consular* sponsored by the Mexican Consulate, as proof of identity for opening new accounts. Although 85% of financial institutions that sponsor IDA programs are for-profit banks, IDA programs have not been subjected to strict financial scrutiny thus far.
- 65% of IDA programs are not subjected to a regular financial review process. Credit unions are more likely than banks to conduct regular financial reviews (56% compared to 31%)
- Financial institutions sponsoring 89% of all IDA programs estimated their programs to be operating at a level greater than, just at, or just below the break-even point
- Host institutions for 93% of bank programs project the IDA relationship will become profitable as participants become interested in higher margin products.

- Financial institutions in 42% of IDA programs are comfortable with the current business side of IDAs, including account structure, transaction procedures, and policy modifications.

Financial institutions depend on and recognize the need for public sector funding for IDAs and are supportive of Savings for Working Families Act provisions.

- 90% of all active IDA programs have public funding as their primary source of match funds.
    - 44% depend on Assets for Independence Act (AFIA) funds.
    - 46% depend on other sources of public funds – federal, state, and local.
- 56% of IDA programs' financial institution hosts are unaware of the proposed Savings for Working Families Act legislation.
- 59% of programs' financial institution sponsors are at least somewhat likely to take advantage of the proposed match fund tax credit.
- 67% are at least somewhat likely to take advantage of the proposed administrative tax credit.

I. INTRODUCTION AND BACKGROUND

Objectives of the Financial Institution Survey of Individual Development Account Programs

The Center for Community Capitalism worked with Senator Joseph I. Lieberman and his staff in 1999 to craft legislation that would take the Individual Development Account concept to national scale as a means to build wealth for low-income families and communities. That legislation proposed channeling federal matching funds through financial institutions rather than community-based nonprofit organizations for three reasons. First, there are too few nonprofits capable of mounting large-scale IDA programs; the geographic coverage of these nonprofits is too uneven to make them the focal point of a national IDA program; and for a national IDA program to work for lower income participants, it must also work for financial institutions.

Thus, the SWFA legislation the Center helped to draft proposed working through the tax code to encourage financial institutions to participate in IDA programs and use their financial resources as match fund sources. SWFA would allocate tax credits for financial institutions that contribute match funding for IDAs. The credit would be allowed for up to $500 of match funds per account per year and up to $50 of administrative and financial literacy expenses per account per year.

To assess how well the tax credit approach might work to bring IDAs to national scale, we needed to know more about financial institutions' experiences with and attitudes toward the matched savings concept. There is growing empirical evidence that IDAs encourage lower income individuals to save. Final results from the nation's first national demonstration, the American Dream Demonstration (ADD), found that participants with incomes at about 130 percent of poverty save an average of $19 a month, or about 1.6 percent of their income. Further demonstration revealed that 56 percent of the participants saved at least $100. Average enrollment lasted for 24.5 months, with an average participant saving over $1,500 and accumulating nearly $2,600 when match funds were included.[1]

Nevertheless, we did not know how well these small IDA programs worked for participating banks, thrifts, and credit unions. More importantly, we knew very little about the motivations and experiences of financial institutions that currently offer IDAs despite the critical role they will have to play if there is to be a national IDA program. This project sought to make up for that oversight. Moreover, we set out to make financial institutions more aware of the SWFA and offer them an opportunity to affect its terms and implementing regulations, input that will be critical if we are to mount a national IDA program by funneling match funds through these institutions.

[1] Saving Performance in the American Dream Demonstration: A National Demonstration of Individual Development Accounts (Final Report). October 2002. Center for Social Development: Washington University (St. Louis).

Methodology[2]

Since there was no complete database of participating financial institutions when we began our work, we first had to compile such a list. Because nonprofit partner organizations are much more likely to be involved in IDA networks and to identify themselves as part of the IDA program population, we began with all existing lists of these organizations we could find, including statewide and regional collaboratives and the Corporation for Enterprise Development's (CFED) IDA Network. We contacted all identified nonprofit IDA sponsors individually. Those that responded identified their financial institution partner(s) and provided basic program information. Our census identified 216 unique financial institutions involved in 338 IDA programs nationwide in the fall of 2002.[3] The larger number of programs than institutions reflects the fact that many financial institutions offer IDAs via multiple programs through individual branches, in various regions in the institution's footprint, and/or in partnership with multiple nonprofit partners.

Through our census, we also became aware that 123 member institutions of the Federal Home Loan Banks (FHLBs) of Seattle and New York participate in 125 matched savings programs similar to IDAs. While each regional FHLB offers some form of first-time homebuyer assistance program, Seattle and New York provide structured savings programs that are designed essentially like IDAs. These programs are targeted towards first-time homebuyers and require participants to save systematically and to complete a financial literacy program. Unlike the typical IDA program model, however, these programs do not involve a partnership with a nonprofit organization. Upon program completion, deposits are matched with funds provided by the FHLB. Because of these programs' similarity to IDAs, we elected to include the FHLB member institutions in the population we surveyed.

Our Financial Institution Survey of Individual Development Account Programs was conducted during the fall of 2002 and resulted in a dataset that includes 230 financial institutions sponsoring 302 savings programs. Of these, 169 financial institutions sponsored 240 IDA programs, including 130 commercial banks and thrifts[4] representing 201 programs and 39 credit unions sponsoring an equal number of programs. The remaining 61 financial institution respondents and 62 corresponding savings programs are FHLB members.[5] (See Tables 1 and 2.)

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[2] A more detailed discussion of our methodology can be found in Appendix A.

[3] We identified but did not attempt to survey an additional 62 programs partnered with financial institutions because of incomplete information. We also believe our total count may underestimate the size of the IDA program population due to the existence of new programs and programs that we were unable to identify.

[4] For the purposes of this report, we combine commercial banks and thrifts into one category and refer to it as "banks" due to the small number of thrifts identified.

[5] For reporting and analysis purposes, we include FHLB responses together with conventional IDA programs and selectively discuss results from the FHLB responses when an interesting comparison exists.

Our sample represents approximately 68 percent of the population of financial institutions and 65 percent of the population of matched savings programs we identified through our census and attempted to survey. This includes responses from 78 percent of IDA-sponsoring financial institutions and 71 percent of IDA programs nationwide.

Table 1: Financial Institutions Participating in IDA Programs

	IDA		FHLB		Total	
Banks	130	76.9%	55	90.2%	185	80.4%
Credit Unions	39	23.1%	6	9.8%	45	19.6%
Total	**169**	**100.0%**	**61**	**100.0%**	**230**	**100.0%**

Source: Center for Community Capitalism Financial Institution Survey of Individual Development Account Programs (2002)

Table 2: Distribution of IDA Programs by Financial Institution Type

	IDA		FHLB		Total	
Banks	201	83.8%	56	90.3%	257	85.1%
Credit Unions	39	16.3%	6	9.7%	45	14.9%
Total	**240**	**100.0%**	**62**	**100.0%**	**302**	**100.0%**

Source: Center for Community Capitalism Financial Institution Survey of Individual Development Account Programs (2002)

A note on the unit of analysis used in this report: As mentioned above, financial institutions may be involved in multiple IDA partnerships with different nonprofit organizations. The degree of program standardization varies from institution to institution, especially among larger ones. To reflect the variance in program characteristics, we decided to use the *IDA program* as the unit of analysis. This allows for differences in program attributes within financial institutions to be accurately captured in our analysis. Additional information on survey methodology and survey response rates is available in Appendix A.

Characteristics of the Population of Financial Institution IDA Sponsors

The pertinent characteristics of the financial institutions included in our survey are detailed here, including institution type and asset size, IDA program size by number of accounts, and location.

Institution Type

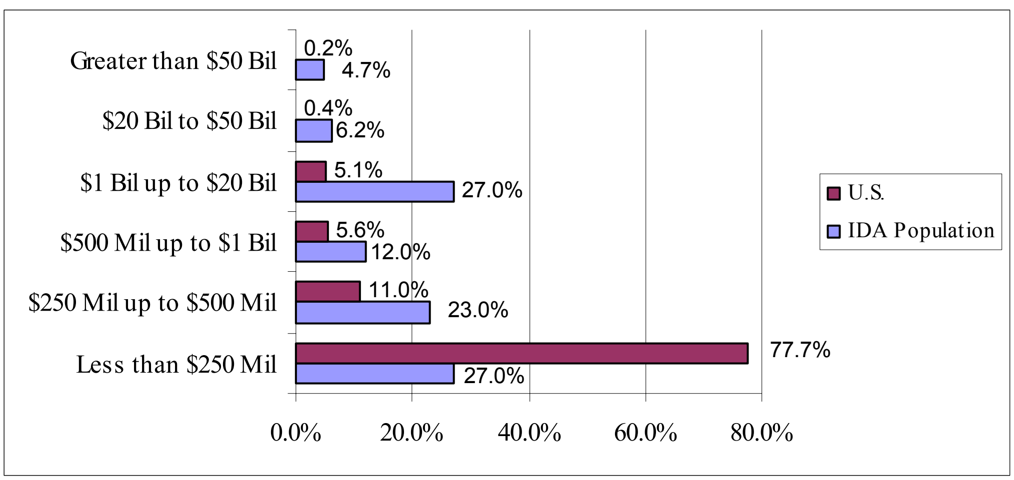
Eighty-one percent of financial institutions sponsoring IDAs are banks, which collectively manage 86 percent of all IDA programs. The remaining 19 percent of financial institutions are credit unions, representing 14 percent of all IDA programs.

Asset Size

Banks

Most participating banks are small to medium-sized, with 89 percent having assets of $20 billion or less. However, a comparison of the asset distribution of participating banks to all banks nationwide reveals that large banks are disproportionately represented among IDA program sponsors as compared to small banks. (See Figure 1.) While banks with assets of $500 million or more comprise just 11 percent of all banks in the United States, they represent 50 percent of all banks offering IDA programs.

Figure 1: Comparative Asset Distribution of Banks Participating in IDA Programs and All U.S. Banks

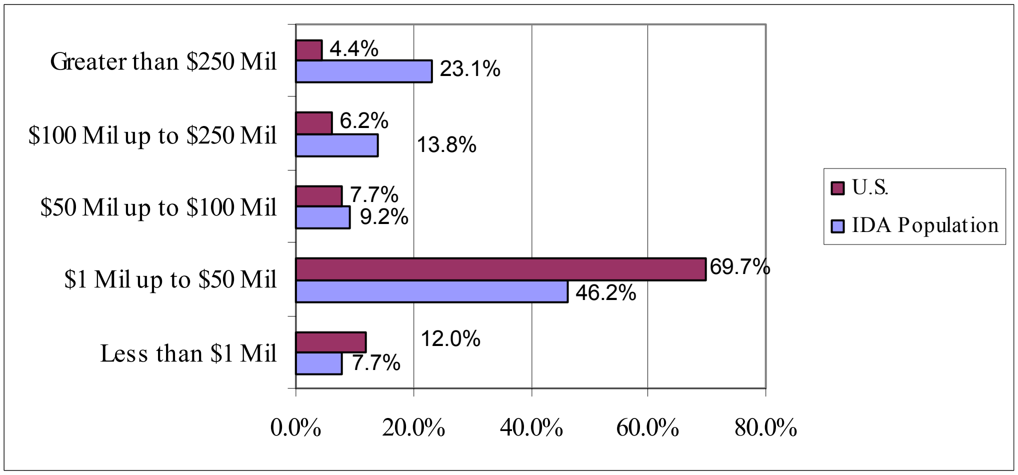


Source: Center for Community Capitalism Financial Institution Survey of Individual Development Account Programs (2002)

Credit unions

The majority of participating credit unions (54 percent) are small, with assets of $50 million or less. An additional 23 percent have greater than $250 million in assets. Compared to the national distribution of credit unions, larger credit unions are also disproportionately more likely to sponsor IDA programs. (See Figure 2.) While credit unions with assets of $100 million or greater comprise 11 percent of all credit unions nationwide, they represent 37 percent of all IDA-sponsoring credit unions.

Figure 2: Comparative Asset Distribution of Credit Unions Participating in IDA Programs and All U.S. Credit Unions

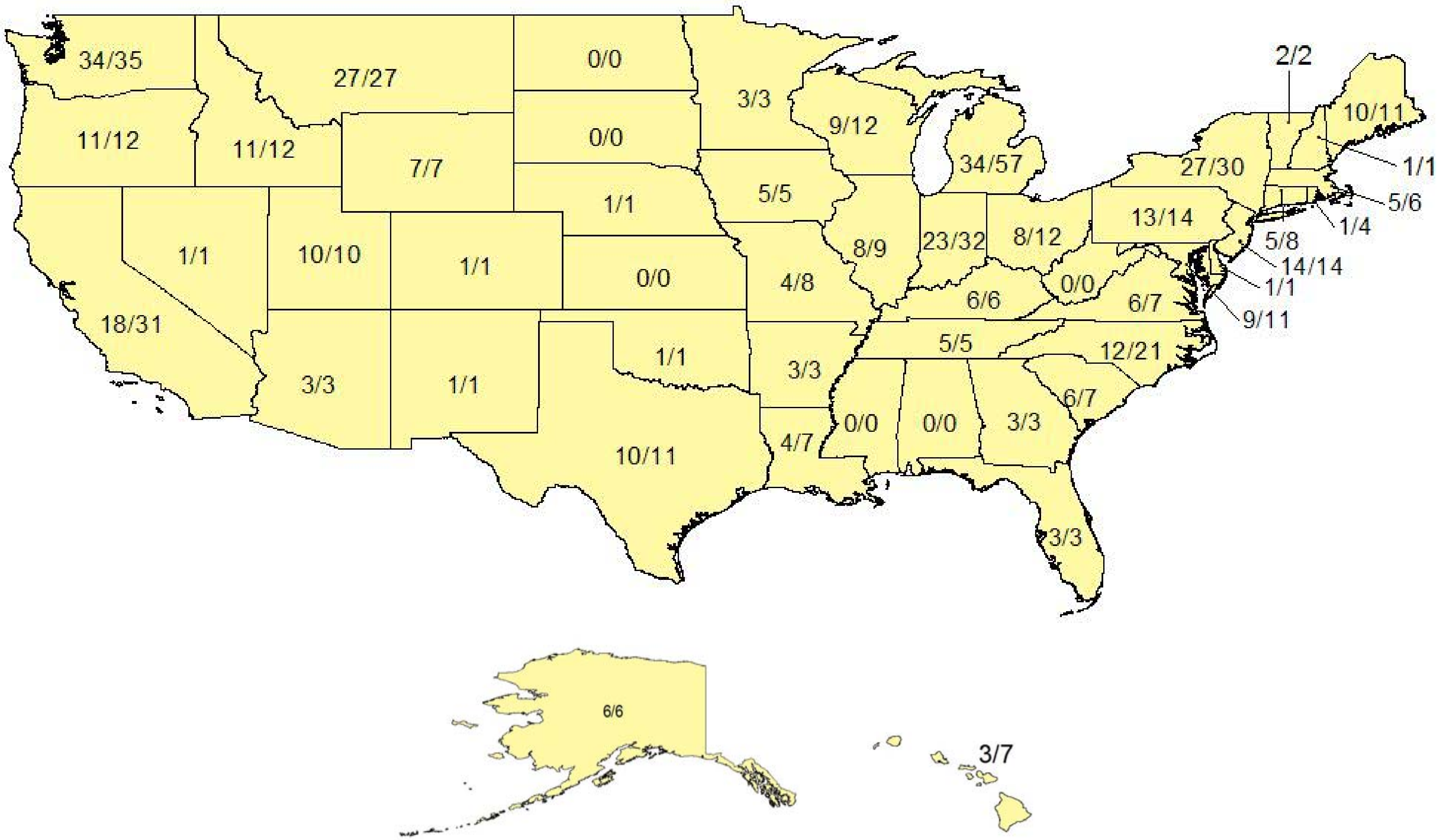


Source: Center for Community Capitalism Financial Institution Survey of Individual Development Account Programs (2002)

Location

Based on the census of IDA programs we conducted, the West region has the highest proportion of active IDA programs (33 percent), while the Northeast has the fewest (19 percent). (See Figure 3.) The seven states with the largest numbers of active IDA programs—Michigan, Washington, Indiana, California, New York, Montana, and North Carolina—are home to half of all active IDA programs. Three of these states—Michigan, Indiana, and North Carolina—have statewide IDA collaboratives that engage in marketing and provide public funding for their programs.

Figure 3: Geographic Distribution of Financial Institutions and IDA Programs



Note: First number denotes number of financial institutions. Financial institutions that have program relationships in multiple states are counted at the state level (e.g., an institution with one program in three states is counted once in each state). Second number denotes number of IDA or FHLB matched savings programs.

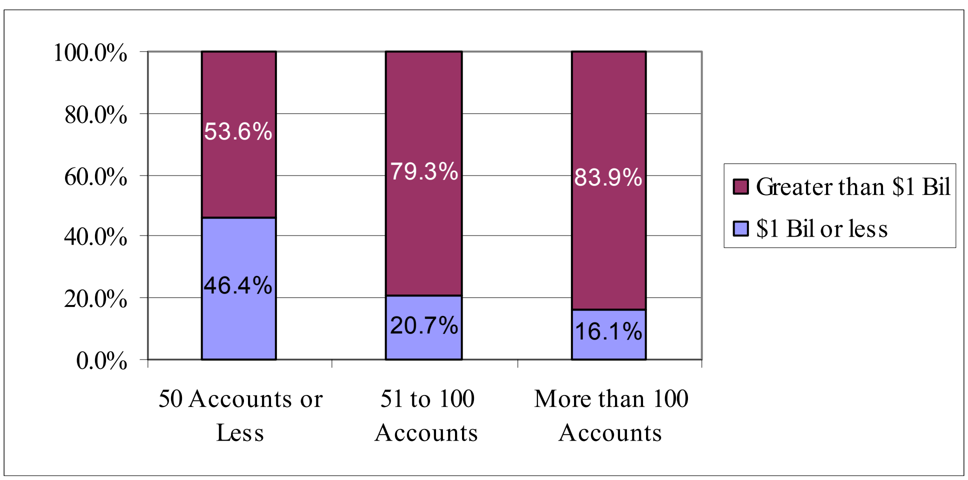
Program Size

We define program size according to the number of IDA accounts managed within a particular program. This measure reflects the number of accounts under the management of the financial institution at the time of the survey and was provided by the financial institution.

Seventy-seven percent of IDA programs consist of relatively small pools of IDA accounts (50 accounts or less). While the total number of IDA accounts sponsored by a given nonprofit organization may be larger due to partnerships with multiple financial institutions, and a few (12 percent) financial institutions also sponsor IDAs in partnership with multiple nonprofits, the vast majority of financial institutions host a very small number of IDA accounts.

The distribution of programs by financial institution asset class reveals that larger banks are more likely to be involved with larger IDA programs. While banks with assets of less than $1 billion sponsor 46 percent of all small programs (50 accounts or less), banks with assets greater than $1 billion sponsor 79 percent of medium-size programs (51 to 100 accounts) and 84 percent of large IDA programs (more than 100 accounts). (See Figure 4.) Most programs sponsored by credit unions are small; 82 percent of programs have 50 accounts or less.

<u>*Figure 4: Distribution of IDA Program Size by Bank Assets*</u>



Source: Center for Community Capitalism Financial Institution Survey of Individual Development Account Programs (2002)

There are several possible explanations for the correlation between the size of the financial institution and the size of the IDA program. Since these data are cross-sectional, we do not know how or whether IDA programs grow to scale; it may be that nonprofit sponsors of small programs move their programs to larger financial institutions as program size increases. However, since the IDA concept is still relatively new and the majority of financial institutions have operated their programs for five years or less**,** most IDA programs are unlikely to have reached a point of significant expansion. An alternative explanation is that nonprofits with the capacity to sponsor more accounts choose to partner with larger financial institutions to service those accounts. Furthermore, larger financial institutions may be perceived to provide better service to IDA customers and their nonprofit partners for a number of important reasons, such as having more branches accessible to IDA participants for conducting their transactions. Or, it may be simply that larger financial institutions are more likely to have longstanding relationships with nonprofit organizations. Having a history of working together might encourage financial institutions to become involved early in IDAs or the organizations to embark on larger programs at the outset. All of these explanations are plausible, and we cannot know for sure which reflect reality.

In the following sections we describe in detail the extent of financial institutions' involvement in IDA programs. Specifically, we cover the institutions' commitment and motivation, relationship with their nonprofit partners, business model for IDA programs, and the role of public funding in encouraging their continued IDA participation.

II. Financial Institutions' Commitment to IDAs

Our survey reveals a deep commitment to IDA programs among participating financial institutions that is likely to last a long time. They are motivated by two business goals: achieving community development objectives, and investing in the development of a new market segment. In this section, we outline leading indications of institutions' extended commitment to IDAs and details on the motivations supporting their commitment.

Expressions of Long-term Commitment

Even given the current small scale of most programs, the IDA concept is widely accepted among financial institutions as a viable approach to helping LMI individuals build wealth. With a nearly unanimous voice (98 percent), financial institutions indicate their intentions to remain involved in IDAs over the long term. Their strong support for future involvement in IDAs is expressed in at least five ways.

First, senior management of financial institutions devote considerable attention to the role of IDAs within the organization; 35 percent of IDA programs were initially championed within financial institutions by senior management. Ongoing senior management involvement is also common, especially in smaller financial institutions (less than $500 million in assets), where 61 percent of IDA programs have direct senior management oversight.

Second, a substantial number of financial institutions initiate dialogue with nonprofits to start an IDA program when no prior relationship between the two organizations exists. Of partnerships between financial institutions and nonprofit organizations formed for the express purpose of operating IDA programs, 27 percent are initiated by the financial institution. One CRA officer recounts how new relationships began at his bank:

> *We tried to target most of the Community Action Agencies around the state because we knew there was a level of interest there, to see if they were going to be offering the IDA product. We let them know that we were capable of servicing those accounts and working with them—their clients and constituents. We were also approached by nonprofits in a couple of instances, letting us know of their interest and we responded in those instances that we would be willing to work with them.*

An additional 61 percent of IDA programs based on new partnerships are initiated by the nonprofit, while the rest are products of statewide or regional collaboratives or similar external efforts. Financial institutions that are approached by nonprofits seeking a partner to run an IDA program show a willingness to engage in this new concept.

A third piece of evidence is that plans for future expansion are already in place at most financial institutions currently involved in IDA programs. Ninety percent of financial institutions indicate that they expect to increase the number of accounts they service. Indeed, at a bank that sponsors a program with more than 100 accounts, expansion was an element of the initial design, according to a manager:

> *Operationally, we are poised to expand to the level that the program needs and can absorb [the additional accounts]. . . But we knew going in what the goals were and our capacity is compatible with that.*

Fourth, while the nonprofit relationship is important (as will be discussed in the next section), some financial institutions feel strongly enough about the benefits of IDAs that they are willing to offer programs on their own without a nonprofit partner. In 35 percent of IDA programs, banks and credit unions would offer IDAs without a nonprofit partner. Seventy-six percent of FHLB institutions would continue their structured savings programs without nonprofit assistance. Given that the FHLB program is not structured to have formal affiliations with a nonprofit partner, an IDA program modeled after these programs could be managed by the financial institution even without significant nonprofit involvement.

Finally, financial institutions, especially banks, are generally comfortable with the administrative operations of their IDA programs. Banks sponsoring 46 percent of IDA programs report that there are no immediate issues standing in the way of expanding the number of accounts they manage.

Motivating Factors for IDA Involvement

Community Development

Almost nine out of ten (86 percent) financial institutions with IDA programs are motivated by community development purposes, which take several forms:

<u>Corporate mission</u>

IDAs are consistent with core values integral to their institutions' missions. An official from a medium-sized bank illustrates the complementary relationship between the institution's mission and the IDA program approach:

> *We're always trying to be a leader in our community that we serve. We have the philosophy that we just don't want people to walk into the bank and feel uncomfortable. So we want to get out there and tell that we are a friendly bank, that we are a community bank, that we are here to serve our entire community, including those of lower- and moderate-income levels. I just think that we would want to see all people achieve economic success.*

One respondent from a large bank expresses the way in which the IDA concept meets the institution's community development objectives:

One of our areas of major concern is helping people develop economic self-sufficiency. So the IDA program is an ideal match for those objectives.

Community development goals are frequently integral to the mission of credit unions, which this credit union respondent highlights:

The credit unions were founded in the U.S. with an objective of helping people bootstrap themselves financially. The Federal Credit Union Act says that we are to promote thrift and to make provident productive loans. These individuals come here from other countries seeking to create a life for themselves and their families. That has a lot of resonance with us in terms of those kinds of social goals. So the combination of the two led us to take the time to learn about the program and set up to participate.

Stronger links to local community

IDA programs are vehicles for some financial institutions to promote stronger ties to their local communities. This officer describes how a small bank took advantage of the IDA program to strengthen the institution's link to the local community:

We knew that this program was good because it was helping people with low income to get started, to better themselves by having homes, and some of them are going to school. We talked it over on a senior management level and we felt that this was something that we wanted to be a part of what is unique to our city.

A branch manager illustrates the way in which the IDA program also brought his institution in closer contact with its local community:

We got involved in the IDA program when nobody else wanted to get involved in it. Here on a local level, I was interested to have a community connection. We went out and got to know the customers. The customers then would need to come into the bank. Some of these people have never had a checking account before. When the program first got started, I was teaching seminars on basic banking. You would see the same customers come in and ask questions. It was helping the people in the community and I just thought there was a need for it still. We are not in a very affluent area.

CRA compliance

IDA programs also fulfill Community Reinvestment Act (CRA) obligations. Although several financial institutions cite compliance as a motivating factor, the explanation is usually connected with other factors. A CRA manager of a regional bank points out:

Probably, this is one of the best low- to moderate-income programs the state has put together for benefit of the savers. It also helps with our CRA [evaluation]. Most CRA products focus in on the lending side, such as for first-time homebuyers. This provides something on the deposit side.

Another CRA officer acknowledges:

I saw it as a great outreach opportunity for the bank to provide qualified services, qualified in the sense of receiving CRA credit for services under our CRA program initiatives. And that's probably why we saw it as a great benefit.

<u>Quality of the IDA concept</u>

The IDA concept is attractive to financial institutions as a community development strategy because of the program's three primary participant goals: building assets, financial literacy, and homeownership. Regarding IDAs' structured savings approach to building wealth, a community development manager indicates:

We have a commitment to [low- to moderate-income] people and facilitate whatever opportunities for them to build wealth. This program has been an effective tool to [motivate] savings among people who probably don't think they have the ability to save.

IDA involvement is not just about building wealth but also about developing fundamental financial skills associated with sound money management. Another community development manager for a large bank recounts:

I think we felt that it was a really great opportunity for low-income individuals to build financial assets. . . . But we also like the financial literacy component that people are not just out there to save, but to get education on budgeting and managing their credit, managing their checking account and just making good choices financially.

Increasing homeownership is a particularly attractive goal for some financial institutions. This official of a large regional bank illustrates how FHLB funding supplements other match funding sources to create an attractive program for the participant:

Well, we thought it was a great opportunity to help the lower income families. I know the IDA program can be used for any one of the three standard purposes, but one of the real opportunities we saw was on the affordable housing side, where we thought we could help a number of clients to purchase homes who otherwise wouldn't have been able to buy them. We also applied for an additional grant through the FHLB with *[the nonprofit] that will actually match funds from the FHLB three times to one.*

New Market Opportunities

Financial institutions in 45 percent of IDA programs report marketing and investment as a second major reason for their involvement. Specifically, financial institutions see the IDA concept as a vehicle for investment in and outreach into underserved or new market segments.

<u>Enhanced revenue potential</u>

Opportunities for cross-selling mortgages, other lines of credit, and other products appeal to financial institutions as a means of generating potential revenues in the long term, once IDA customers graduate from the program. The marketing and investment reasons that many banks express are well summarized by this respondent from a large bank:

> *We like the IDA because people who are in this program, if they achieve their goal, are buying a house, starting a business, or going to school. And we're really looking at this in terms of investing in a future customer base. People have goals, and we're hoping they all achieve them. So that gives us an opportunity to provide the mortgage when they buy their house, or their student loan, if they go to school. Obviously, as a business, we hope to have their deposit account and maybe a loan as well.*

Some institutions are more focused on specific products, as this bank manager describes:

> *Our primary line of business has been mortgage lending. Any time we saw an opportunity to increase that, especially with low-income borrowers, we tried to get involved with these types of programs. So the IDA was another one of those programs that could potentially turn into a mortgage loan with a new borrower.*

This respondent at a large bank projects a long-term outlook by focusing on both local economic development and benefits to the institution:

> *We understand that in order for our local economy to grow, community members need to have an economic advantage. We see the IDA program providing that advantage and helping to build the economic base of our community. From that perspective, it was a business decision, because if the base grows, we could have future customers.*

Business relationship with nonprofit

In some cases, the investment focus is on the nonprofit organization rather than on the IDA target population. Pleased with their existing relationships with nonprofit organizations, financial institutions offer IDA programs as a means of enhancing the overall client relationship. Financial institutions have cultivated both new and existing relationships with nonprofits by responding positively to the nonprofits' invitations, and offering potential nonprofit partners opportunities to work together or collectively, such as membership in a regional IDA or community development collaboration.

A branch manager at a large national bank highlights the bank's service to clients and receptivity to meeting client needs:

> *The nonprofit was an existing client and it just made sense, as they were rolling out new programs, IDA being one of them, that they solicited us first. It wasn't an agreement to roll it out with us just because they had their relationship with us already, but I think it just made sense on their part to ask us first.*

Similarly, a senior manager at a large regional bank notes the positive relationship between the financial institution and the nonprofit partner and conveys the satisfaction of meeting the client's desire to partner in the IDA program:

> *The nonprofit is an excellent organization. We've done a lot of different things with them over the years, on the lending side, on the housing development side. Programmatically, we've supported a lot of things they have done. This was a natural outgrowth of a lot of those things they were doing. Because of the relationship we've had over the years with them, it just made sense for them to come to us.*

New business relationships have emerged by working together on the IDA program, as a branch manager recounts:

> *Actually I just made a cold call on them . . . and they were not happy with the bank they were currently banking with. That's how we got started with [the nonprofit] . . . and this led to IDA accounts.*

Financial institutions are motivated and committed to IDA programs for both community development and marketing reasons. Success in these areas is due in large part to strong relationships developed with nonprofit partners, discussed in the next section.

III. FINANCIAL INSTITUTION/NONPROFIT RELATIONSHIPS

Most financial institutions acknowledge that nonprofit participation is critical to their future involvement in IDAs. Banks and credit unions hosting 56 percent of current IDA programs would not offer an IDA program without a nonprofit partner. Financial institutions offering large programs acknowledge the need for the partnership even more strongly; 71 percent would not continue without the nonprofit partner's involvement.

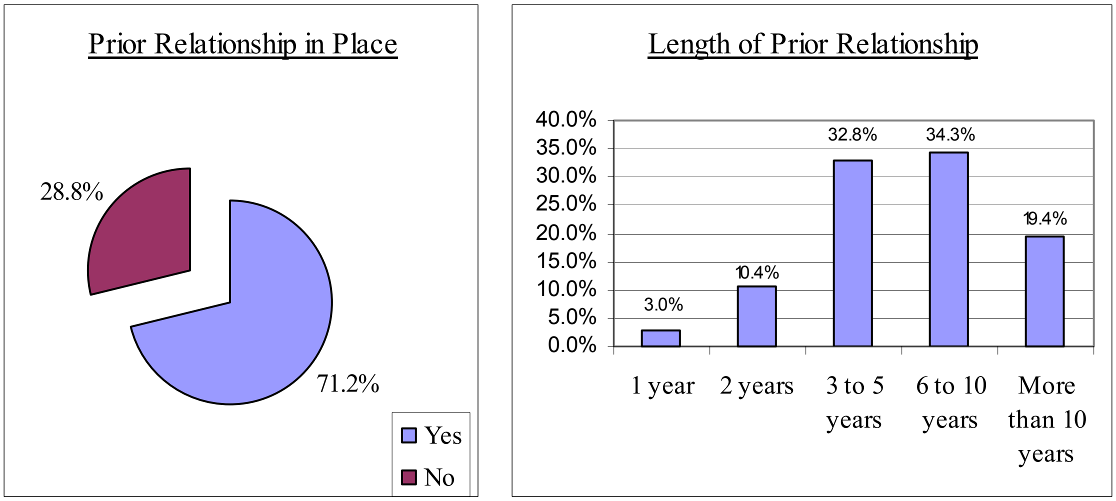
Financial institutions note that strong, successful partnerships require capable nonprofit partners. The nonprofit's capacity directly impacts the institution's ability to execute the IDA program, as this manager from a large bank describes:

> *I think that if we were working and dealing with a nonprofit that did not have the track record, we might not be as readily willing to do this kind of partnership, because I think that the capacity of the nonprofit is essential to the success of this particular program . . . I don't think we have been aggressive in seeking them out, but we have been responsive to the opportunities that have arisen when nonprofits have approached us. We've seen mixed results, based on the capacity of the nonprofits. I'm not sure if we have been progressive or regressive in seeking them out, but I think that we have been essentially looking for and expanding service among those nonprofits that have proven the capacity and capability of doing this right.*

Building on Existing Relationships

For many financial institutions, the IDA partnership is a continuation of an ongoing relationship with a local community organization. Seventy-one percent of all IDA programs evolve from an existing relationship between the financial institution and the nonprofit organization. (See Figure 5.) Of these, 87 percent are at least three years old. Notably, credit union programs and large programs represent a substantial portion of long-standing partnerships. Forty-seven percent of credit union programs and 40 percent of programs with more than 100 accounts emerge from relationships older than ten years. The latter, in particular, suggests that strong, solid IDA programs benefit from the ongoing relationship that exists between the two parties.

Figure 5: Existing Financial Institution-Nonprofit Relationships



Source: Center for Community Capitalism Financial Institution Survey of Individual Development Account Programs (2002)

The existing relationships between financial institutions and nonprofit organizations can be characterized in several ways, differing principally between banks and credit unions. Bank programs are driven by depository relationships and grantmaking to nonprofit organizations. Credit union relationships typically are based on non-depository relationships. Credit union officers, for example, may serve on the boards of their nonprofit partners or work with them on other community projects. A credit union vice president explains that a partnership started with a joint marketing effort—the nonprofit assisted the credit union in attracting new members. This led eventually to forming the current IDA program. Another credit union manager describes the genesis of a partnership this way:

> *An employee at the nonprofit used to be the credit union president. We had known each other for 20 years plus. She saw an affinity between credit unions as a nonprofit, service-oriented financial cooperative and the nonprofit as a 501(c)(3) community service organization. As a consequence, as they were working to become involved in the grant to support these refugees with an IDA program, she contacted me.*

One byproduct of existing relationships between financial institutions and nonprofit partners is the influence that key champions within the institutions can contribute to the IDA programs. A CRA officer explains how the nonprofit relationship shaped the response to the organization's request for the financial institution's participation in their IDA program, and garnered approval of the project:

> *We saw this as an account relationship. When we're working with customers, they get priority . . . I think it may be, fortunately, that if I am the introducer of those projects, it means I get cooperation. Not that I have any great power, but I think that I'm at a level that when I told them*

it was important, they saw and understood that it was a customer relationship and it got top billing.

Providing Financial Support

Financial institutions in more than half of all (52 percent) of IDA programs provide direct financial support to the programs. Seventy percent of large IDA programs (those with more than 100 accounts) receive direct financial institution support, indicating that such support is critical for helping IDA programs achieve scale.

Financial assistance is primarily targeted for two purposes: Sixty-eight percent of financially supported programs receive grants for either match funds or IDA program operating costs. Other forms of assistance from financial institutions include underwriting financial literacy training and program marketing.

IDA programs hosted by banks are more likely than those at credit unions to receive financial support. Fifty-four percent of all bank programs receive some form of financial assistance, compared to 39 percent of credit union-sponsored programs. This difference is consistent with the nature of the typical relationships between banks and credit unions and their nonprofit partners. Banks tend to have financially-based relationships, while credit union relationships are more likely to be based on non-IDA program relationships or credit union governance activities. Important in-kind support also is provided in various ways, as described by this respondent from a middle-sized credit union:

> *We don't provide direct financial support to the program. What we've done is bear the administrative cost on our side. We've purchased the IDA software to generate some of the reports—we provide spreadsheets electronically to them to administer the program. We sent our staff to the IDA training. We have hired a couple of participants upon graduation as employees. We provided some assistance to them to assess their credit history and background. While we haven't written checks, we have provided a lot of administrative support and done that on our nickel.*

Partnership Structure

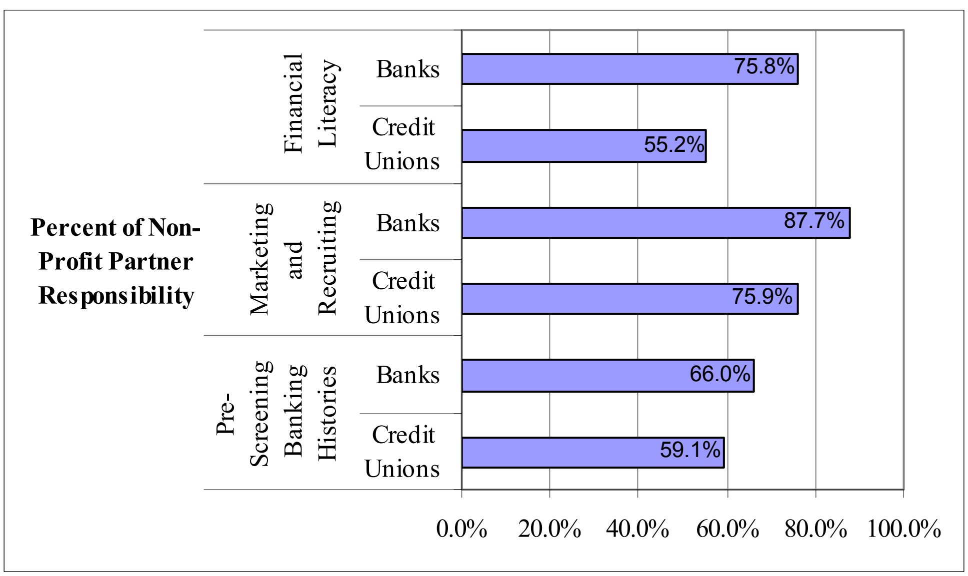
Formal written agreements are used to structure 78 percent of IDA partnerships. With these agreements, financial institutions structure the IDA partnership by outlining the responsibilities for each party. While minor variations exist based on program-specific guidelines, the agreement generally assigns transaction-oriented responsibilities to the financial institution and program marketing and management activities to the nonprofit organization. For the financial institution, the agreement outlines the specific features associated with the IDA product and the reporting arrangements with the nonprofit partner. For the nonprofit organization, program management, marketing, and recruiting activities are described. The agreement also defines how the two parties will share responsibilities, such as conducting financial literacy training. A typical partnership agreement is reproduced in Appendix B.

Non-Profit Program Responsibilities

The majority of financial institutions focus on the primary functions of handling deposits and related transaction activities, and depend on their partners to provide other support and related services to IDA participants. (See Figure 6.) One of the most telling examples of this division of responsibility is the provision of financial literacy training. In 76 percent of bank programs and 55 percent of credit union programs, the nonprofit partners are responsible for providing financial literacy training. Credit unions' higher rate of involvement reflects their emphasis on thrift and financial acumen. Moreover, nonprofit partners are responsible for marketing and recruiting in 86 percent of all IDA programs. Nonprofit partners also assist financial institutions in reviewing applicants' banking histories; for 65 percent of IDA programs, the nonprofit organizations pre-screen applicants. One manager at a small bank describes the bank's reliance on the nonprofit partner in the screening process:

> *Basically, the way the system works is that they do their screening, their eligibility, they send us the applicant with a certification form saying we are to open this account for this individual. I would imagine all screening is done by them.*

<u>*Figure 6: IDA Program Responsibilities Performed by Nonprofits Partnering with Banks and Credit Unions*</u>

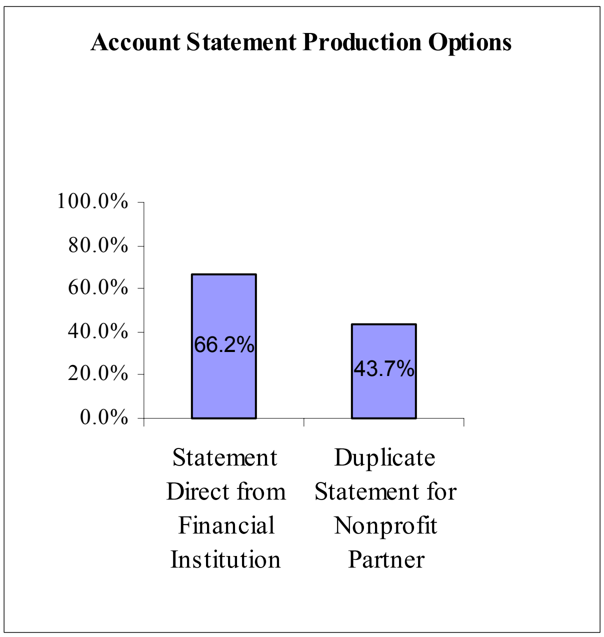


Source: Center for Community Capitalism Financial Institution Survey of Individual Development Account Programs (2002)

Reporting Account Information

A major component of all IDA programs is regular communication among the financial institution, the nonprofit organization, and the participant concerning the participant's progress towards achieving the savings goals. A primary vehicle for accomplishing this is the account statement. Financial institutions in 71 percent of IDA programs generate monthly account statements, while 26 percent produce quarterly statements. In 66 percent of IDA programs, the financial institution sends the account statement directly to the participant; duplicate statements are sent to the nonprofit partner in two thirds of these programs (43 percent of all IDA programs). (See Figure 7.)

Figure 7: Recipients of IDA Account Statements from Financial Institution



Source: Center for Community Capitalism Financial Institution Survey of Individual Development Account Programs (2002)

Banks are more likely than credit unions to take on the added responsibility of generating and mailing duplicate statements to the nonprofit. Another option, electronic reporting to the nonprofit partner, is used by financial institutions in only 29 percent of IDA programs. Program size matters, as 45 percent of large IDA programs (those with more than 100 accounts) have electronic reporting in place, compared to only 27 percent of smaller programs. An efficient, cost-effective electronic reporting option is important for enabling IDA programs to achieve scale, as observations reveal. One credit union executive notes, "Right now, the paper-based [reporting system] works because there are not too many accounts. If we got up into the hundreds, I think we would go to some electronic database." Prior to any expansion, an official from a large bank predicts, "We'd probably streamline the processes and get away from the paper statements. Do it more electronically—that's where we would have our cost savings."

Among programs that do not use electronic reporting, financial institutions cite nonprofit partner limitations as the barrier to such reporting in 46 percent of the cases.[6] In one-quarter of IDA programs, the limitations lie with the financial institution.[7] In 21 percent of programs, the nonprofit partner has not requested an electronic reporting option.

As the intermediary between the financial institution and the participant, the nonprofit partner plays two important roles in the savings process: tracking savings and encouraging savers. Staff at nonprofit organizations organize and analyze account information using software such as MIS-IDA[8] to track savings; participants who do not make consistent deposits receive additional follow up.

Because of the low volume of electronic reporting, nonprofit partners frequently must process tremendous amounts of information for their data collection needs and often have to input individual account information manually into their database. In addition to creating program-level summary information, nonprofit partners must also keep records current and monitor deposit performance.

In a majority of IDA programs (78 percent), the nonprofit partner tracks the accumulation of match funding as well as regular deposit activity, communicating this information to the participant on an account statement along with some or all of the standard account information produced by the financial institution. This is most important for participants in those programs (33 percent) where account statements are sent directly to the nonprofit partner, rather than the participant. For these participants, the nonprofit partner takes the responsibility for communicating the account information as well as the accumulation of match funds to the participant.

Facilitating Expansion

Before expanding their IDA involvement, some financial institutions see a need for their nonprofit partners to improve their capacity to manage the programs efficiently. In particular, among financial institutions sponsoring approximately 30 percent of medium and large IDA programs (18 percent of all IDA programs), three general areas of nonprofit capability have been identified as needing improvement.

First, because of additional account management tasks, opening new IDA accounts is more complicated than opening regular savings accounts. Some nonprofits do not follow the procedures developed by the financial partner for opening accounts in the most efficient manner. Or, nonprofits do not adequately communicate to applicants

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[6] These include insufficient skills, technology constraints, and incompatibility of software.
[7] These include low priority, cost, complexity, technology constraint, uncertainty of program future, preference for other delivery means (e.g., in person, fax, mail), and privacy concerns in sharing information.
[8] This widely used IDA account management software is produced by the Center for Social Development, based at Washington University.

the documents or paperwork they will need to open their account when they visit the financial institution. In some cases, financial institutions send representatives to the nonprofit to help the staff open accounts on-site to expedite the enrollment process. However, when the account holder needs to visit a branch office and does not receive adequate instructions, the enrollment process becomes more complicated for the financial institution staff. Nonprofits need to simplify the enrollment process and improve their communication with applicants to make financial institutions more willing to expand their IDA programs.

Second, some financial institutions note that IDA enrollment levels are lower than the projections made by nonprofits at the beginning of the partnership. To make their involvement worthwhile, institutions contend that nonprofits need to enhance their efforts to recruit enrollees and expand the program.

Third, given the considerable reliance on the nonprofit partner for overall program management, further expansion would depend on the financial institution being confident that the nonprofit partner has the capacity to handle additional accounts. The increase in accounts will impact staff-related functions, such as case management, marketing, recruiting, teaching financial literacy, and grant writing and fundraising. Technological infrastructure and capacity are also important. Administrative efficiencies can be generated by opening new accounts online and receiving regular account information through electronic reporting. But appropriate hardware and software resources and skilled staff members are required to take advantage of these potential enhancements. In some cases, financial institutions question whether their partners have these capabilities to take on additional IDA accounts.

These findings indicate that financial institutions operate with clearly outlined roles and responsibilities for executing the IDA programs. Banks and credit unions are highly reliant on their nonprofit partners to execute key components of the programs. One IDA program manager at a large bank summarizes the benefits of the relationship in this way:

> *We are personally engaged with a lot of nonprofit partners. We learned a long time ago that if the bank is doing it, even though we have a pretty good reputation in the community, there are a significant number of people who are intimidated by a banker in a bank. For whatever reason, there are some historic discriminatory issues in play. We've learned it's always better to work with a community development partner, a faith-based partner, or some community-based organization. They take the top billing and we're just the quiet partner to get the goals accomplished. We work quietly behind the scenes with the nonprofit partners and they have a better success rate in delivering and tapping into whatever service you want to provide.*

The Role of Collaboratives

IDA collaboratives are umbrella organizations of IDA-sponsoring nonprofits that have emerged in some regions of the country, primarily to share best practices and experiences between organizations, and to provide technical assistance to nonprofits sponsoring IDA programs. Collaboratives also help to consolidate activities such as marketing and fundraising. Typically statewide collaboratives are designed to promote successful IDA operations. At least 20 states have such organizations, though structures vary somewhat from state to state. Most (11) are led by one nonprofit—usually a community development corporation—that oversees direct and indirect statewide efforts to develop IDA programs. The host organization convenes working groups among interested parties, seeks funding, especially from the state legislature, and serves as lead agency for the collaborative. Seven other state collaboratives have direct administrative support mandated through their legislatures. Detailed information on existing statewide IDA collaboratives can be found in Appendix C.

Enhanced collaborative efforts could help accelerate the expansion of IDA programs to national scale. Financial institutions that sponsor 76 percent of IDA programs support regional collaboratives; they recognize that they could benefit in several ways from centralized IDA knowledge and administration.

Through a collaborative, a financial institution may have access to a greater number of accounts, because programs from various nonprofits are pooled and IDAs are generally deposited at a single financial institution, rather than smaller numbers of accounts scattered across several banks. If the financial institution joins the collaborative during its formative stages, it has an opportunity to help define and standardize elements of the IDA program, especially as it relates to deposits and transactions. For example, members of the collaborative can work together to develop procedures for opening new accounts, take deposits, and execute withdrawals, as well as determine how reporting requirements will be met. Depending on the size and reach of the collaborative, the financial institution may be able to maximize its marketing and outreach initiatives by working through a centralized organization, rather than through individual organizations in a particular region.

In assessing the benefits of collaboratives for financial institutions overall, however, a number of factors need to be considered. First, larger financial institutions are more likely to have a wider market presence throughout the service areas of the collaborative's member organizations. Since most IDA programs still require some interaction with a local branch office, smaller financial institutions may be at a slight disadvantage for being chosen as major partners for collaboratives. However, smaller financial institutions may be asked to join the collaboratives to service particular regions that are not covered by larger institutions. In other cases, the collaborative may want to provide participants a choice of financial institutions and so will have multiple partners join the collaborative.

For larger financial institutions, working with collaboratives raises marketing complications, as pointed out by one bank official, who believes that targeted marketing to particular communities, based on proximity and relationships, is most effective for IDA programs:

> *We cover six states. If we look at this state alone, the demographics and the economic conditions associated with each market are different. If you try to do something that is large scale in that regard, the relationship between people in the branch, the people in the nonprofit close to that branch, and the borrowers who want to take advantage of that program would be diluted.*

The stability and willingness of nonprofit partners to work together also becomes an issue that might limit the effectiveness of collaboratives as an approach for taking IDAs to scale. Competition for limited funding and jurisdictional concerns can limit nonprofit organizations in formalizing the collaboration beyond simply a working group to share ideas and experiences. One bank manager recounted experiences over "ownership and turf issues among nonprofits" as a concern in working with collaboratives.

Collaboratives may be useful to financial institutions as well as helpful in growing IDAs to national scale, but there are several issues that need to be considered and overcome to capitalize on the potential benefits.

In the next section, we report on IDA program operations.

IV. THE BUSINESS OF IDAs

Overall, financial institutions take a relatively relaxed approach to the business of IDAs and have no or low profit expectations. This is evidenced widely, from their willingness to relax standards for opening accounts to not conducting financial reviews of IDA programs. This approach is presumably fostered by the first two major themes addressed in this paper: that financial institutions' involvement with IDAs is based primarily on a community development orientation, and that financial institutions depend on strong nonprofit partners, who bear much of the effort and administrative cost of running IDA programs.

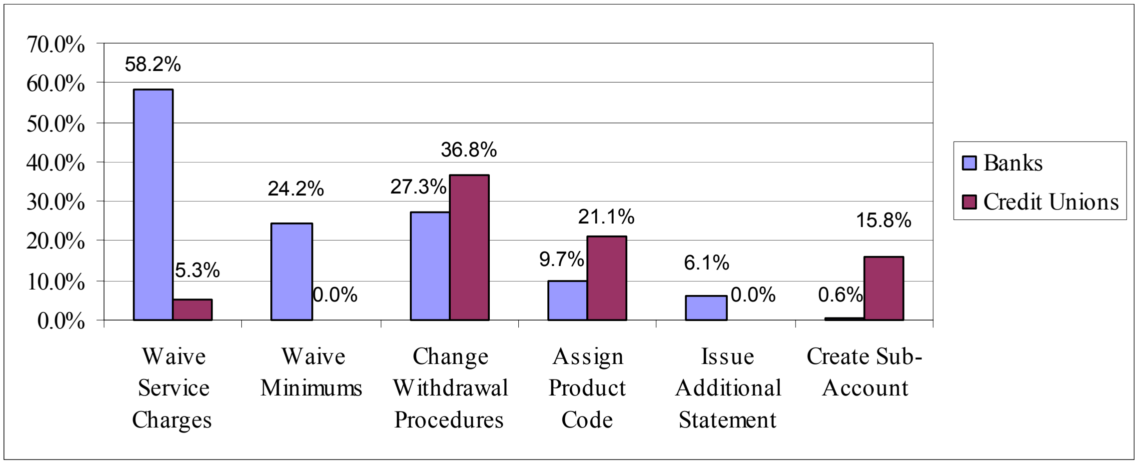
The way financial institutions approach the business of offering IDAs is notable in two ways: modification to their normal business models and relaxation of normal operating policies. Both of these changes are undertaken primarily to meet the requirements of funders or to facilitate accomplishing the goals of an IDA program by providing low-income people the opportunity and encouragement to save, however small the amount they are able to put aside; and, at a more basic level, to offer people whose banking histories may be blemished second chances to access basic financial services and repair their records.

Characteristics and Structures of IDA Accounts

Sixty-six percent of bank-sponsored IDA programs and 43 percent of credit union programs modified existing products for their IDA accounts. Most modifications consist of eliminating revenue-generating account features, such as service charges and minimum account balances. Credit unions more frequently implement procedural changes, such as assigning new product codes to accounts to be used for IDAs and creating sub-accounts for IDA accounts. From an account management perspective, these forms of procedural changes enable the financial institution to easily identify IDA accounts among other deposit accounts and to alert employees to the associated restrictions on the accounts (e.g., withdrawal policies). (See Figure 8.) One officer at a large bank recounts the various modifications that were made at the institution:

> *The account was modified basically to meet the needs of the program. The closely related account we took was one that actually paid interest on a quarterly basis, but we modified it to pay interest monthly to meet the [program] needs. Also, they put certain restrictions on the accounts that we didn't have on our other accounts. No debit cards are issued. We also added an alternate address, so that the nonprofit can receive a statement in addition to our weekly updates, and programming to provide weekly updates to all accounts in this product type.*

Figure 8: Modifications to Existing Account Products for Use as IDA Accounts



Source: Center for Community Capitalism Financial Institution Survey of Individual Development Account Programs (2002)

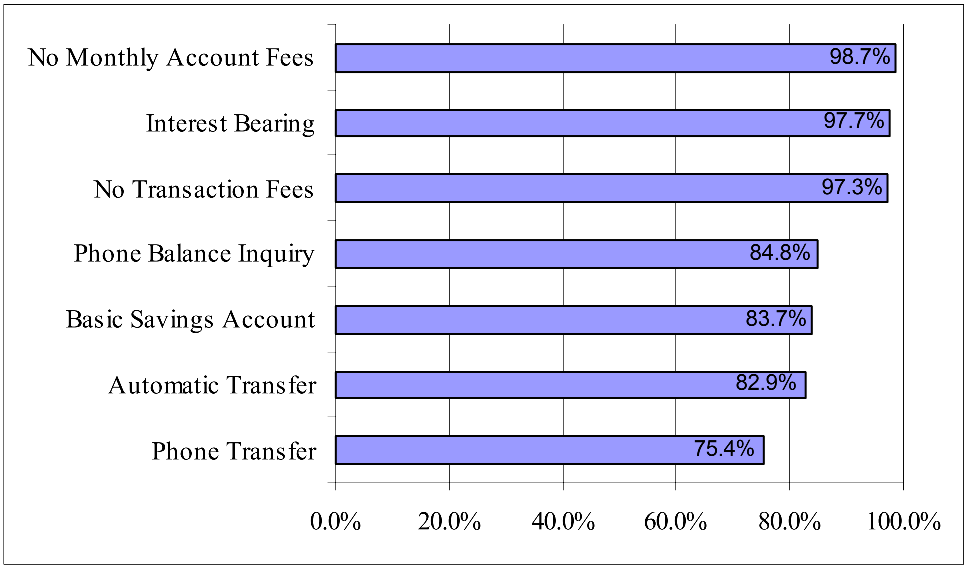
Larger financial institutions involved in multiple IDA programs took steps to standardize products and procedures across multiple locations in an effort to streamline opening and maintaining accounts. A regional community development manager illustrates:

> *From our company's perspective, we tend to want more of a global approach and don't want to have programs that are radically different in each one of our markets. We're in 24 states, and if we tried to be very different in how we approach the IDAs in every market, that would create chaos. So, there are some universal things that we do with the program and then there may be some differences in how the nonprofit organizations operate their programs: what the match rate is, what assets the participants are saving towards. The universal thing that we do with our program is we take our standard savings account and we tweak it.*

Account Features

Banks and credit unions offer a number of similar features in their IDA accounts. (See Figure 9.) Nearly all IDA programs waive monthly account fees (99 percent), offer interest-bearing accounts (98 percent), and do not assess transaction fees (97 percent). More than three quarters of IDA programs offer the option of checking balances by phone (85 percent), work with a basic savings account (84 percent), and allow for both automatic (83 percent) and phone transfers (75 percent) from another account at the same financial institution.

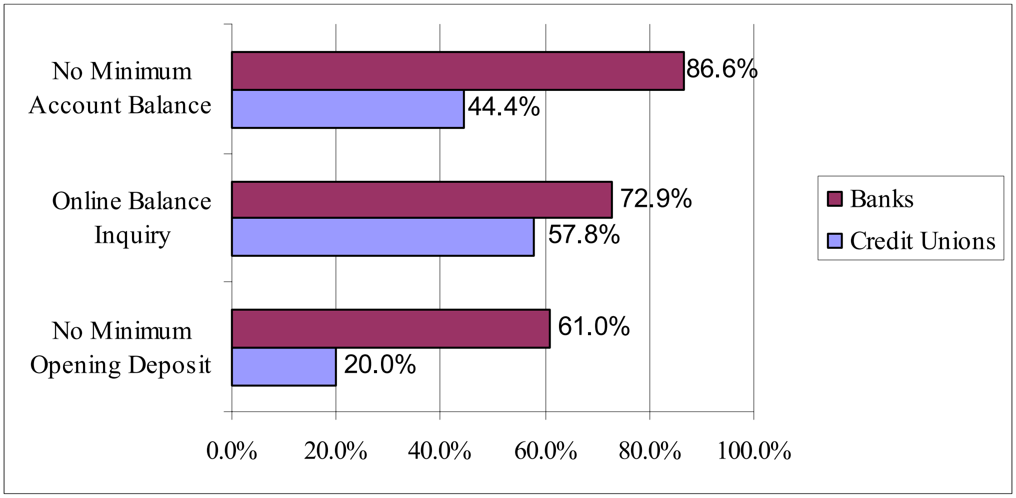
Figure 9: IDA Account Features Offered by Both Banks and Credit Unions



Source: Center for Community Capitalism Financial Institution Survey of Individual Development Account Programs (2002)

Banks differ from credit unions in implementing certain features. (See Figure 10.) For example, bank-sponsored programs are nearly twice as likely as credit union ones to waive minimum balance requirements (87 percent compared to 44 percent). Furthermore, 73 percent of bank programs offer online balance inquiries, compared to just 58 percent of credit union programs. This difference may be due in part to the greater prevalence of online banking capabilities in banks as compared to credit unions. Sixty-one percent of bank programs waive the minimum opening deposit requirement, compared to just 20 percent of the credit union programs. For those institutions that do require an opening deposit, the amount is modest; in approximately 60 percent of banks and 90 percent of credit unions, this opening deposit is $25 or less. In general, even for IDA participants credit unions maintain their policies of requiring new accountholders to make a small deposit when opening a "share" account and becoming members of the credit union. This may explain why a larger percentage of credit unions require an opening deposit.

Figure 10: Differences in Bank and Credit Union IDA Account Features



Source: Center for Community Capitalism Financial Institution Survey of Individual Development Account Programs (2002)

Direct deposit

Direct deposit is offered in nearly all IDA programs (93 percent). However, usage among participants differs between bank and credit union programs. While 84 percent of bank-sponsored programs report no or little usage of direct deposit, 43 percent of credit union programs have at least some or significant usage. Program size matters as well. Forty-eight percent of small programs (50 accounts or less) have no direct deposit activity, while 35 percent of large programs report some or significant activity. Reasons for this variation in the use of direct deposit may be linked to IDA participants' inexperience with banks, according to this bank respondent:

> *I can't think of anyone from the top of my head that has a direct deposit situation. They mostly come into our branch and make deposits. And a lot of them are just learning the banking system, so at this time, we require them to come to our [branch] office, rather than have them all over the other branches. It's easier, we know them, and we know what to do.*

Although direct deposit reduces account management costs, large numbers of banks are not able to take advantage of this potential because of participants' reluctance to take advantage of it. However, at one credit union, direct deposit use is so significant it produced something of a ripple effect by generating interest in an automatic transfer option:

> *It's so much easier for them. They don't manually have to come in and make these deposits. A lot of them have direct deposit from where they work anyway. So they set this up and it is convenient for them. For one thing, direct deposit today is so prevalent. Everybody is doing it. All the*

companies are doing it. They're trying to get away from that check, I guess. And that's the reason. When they come in and they know that they can have direct deposit [from their employer], then they automatically ask, 'Can I direct deposit, can I transfer?' We do internal transfers, so they will automatically ask, 'Can I do an internal transfer to my IDA account?' Sure.

<u>Account ownership and withdrawals</u>

One ancillary objective of IDAs' structured savings approach is to foster participants' accountability for and commitment to long-term savings. One way to exercise accountability is through account ownership. While accounts in 79 percent of IDA programs are fully owned by the participant, the remaining 21 percent of programs implement different account ownership structures to maintain oversight of deposits and, more importantly, withdrawals.

In an effort to minimize unnecessary withdrawals that would undermine the savings toward a particular asset purchase, 21 percent of programs in which accounts are owned by the participant have accounts flagged by the host financial institution so that the IDA owner cannot make withdrawals without the approval of the nonprofit partner.

Of those IDA programs in which the participant is not the accountholder, 16 percent use a structure of joint ownership by the participant and the nonprofit. In the other five percent, the nonprofit partner is the account owner.[9]

A very small minority of IDA programs (3 percent) use an escrow account structure modeled after real estate escrow accounts. The primary account holder is the nonprofit organization, and each participant in the program deposits into a sub-account that is linked to the master account. This arrangement yields some important transaction-related benefits. For one, opening new accounts is simpler for the financial institution because some of the work to establish them can be shifted to the nonprofit organization. A branch manager describes this process and the potential benefits to all three parties:

We don't actually open the sub-escrow accounts. The nonprofit is able to open these accounts online. So every time they get a new participant, they input their information on the online banking system. Our business accounts will allow you to open up additional accounts from what you have already, so each time, the nonprofit has a way to open them up themselves. The escrow account is the only account that allows the client to open more accounts on their own. Otherwise, someone would need to come into the bank to open an additional account, which would be more work.

The escrow format also can make the process of withdrawing the participant's funds easier when he or she completes the program by meeting savings goals. If the

[9] Quality of banking histories, a related topic to account ownership, will be discussed later in this section.

nonprofit elects to have the match funds on deposit with the financial institution and places the funds in the master account, technically both the match funds and the participants' funds are already in one account. The disbursement to the vendor will be generated from this one account, rather than from two separate accounts.

Restricting ATM accessibility is another means of imposing accountability. Approximately 40 percent of IDA programs do not allow any ATM transaction activities, including deposits or balance inquiries. Smaller credit unions without ATM capabilities may account for some of these programs, but in others the sponsors limited participant access to ATMs to prevent unauthorized withdrawals.

Relaxation of Existing Application Review Policies

In addition to modifying account structures and characteristics, financial institutions have modified their normal procedures to include participants with problematic banking histories in IDA programs.

Although financial institutions remain concerned about banking histories, they display greater support for recruiting non-standard clients within the IDA structure. Financial institutions understand that these are the clients who may benefit the most from the IDA program experience. Consequently, they provide these applicants an opportunity to resolve their problematic banking histories through financial literacy training and case management by the nonprofit partner. Indeed, helping participants in this way is the second goal of the IDA concept.

Financial institutions employ several strategies and alternate procedures developed in partnership with the nonprofits so that those whose banking histories would normally preclude them from opening new accounts can enroll in IDA programs.

One strategy is to use a different account structure. As discussed above, jointly owned or nonprofit-owned accounts as well as escrow accounts allow the nonprofit partner to share the risk with the financial institution by acting as an account holder. These alternate account structures enable financial institutions to waive the normal review of a participant's banking history, as described by this bank manager:

> *We would not check [participants' banking histories] because the accounts are in [the nonprofit's] name, so they are the only ones who can actually make withdrawals or transfer funds from the accounts. It doesn't matter if they go through ChexSystems or not, because they are taking full liability of the account.*

Fifty-seven percent of IDA programs verify banking histories of IDA applicants using ChexSystems or other similar commercial reporting services[10]. However, 72

[10] Financial institutions rely on these verification systems to review banking histories of new applicants and self-report accountholders who have mishandled accounts. These reports are made available to other institutions subscribing to the reporting service.

percent of these programs will not automatically disqualify an applicant because of a problematic banking history identified by the review. Although banking histories remain a concern for the financial institutions, alternate procedures have been developed in partnership with the nonprofit partner so that this segment of the participant pool can open new accounts and enroll in the IDA program.

The most frequent approach, taken by financial institutions in 51 percent of programs, is to review those applicants who are flagged by ChexSystems on a case-by-case basis. This gives the IDA program manager at the financial institution discretion to waive existing policy and approve a new account. The willingness to relax this policy is driven in part by the three-party relationship among the participant, the nonprofit organization, and the financial institution, as a CRA manager points out:

> *We have on occasion waived someone [who is flagged as having a problematic banking background] on ChexSystems. With most other banks, that's the end of the conversation. With us, there's more conversation. Because of our relationships with the nonprofit partners, we have made exceptions in opening accounts.*

Another approach is to require the participant to resolve any outstanding issues or to complete the financial literacy requirements of the IDA program prior to opening the account. A respondent at a medium-size bank outlines the procedures used to enroll an applicant reported on ChexSystems:

> *We do offer a program they can attend and which goes into a bit more detail. It's kind of like traffic school for banking. If they attend a program through an outside service provider called Consumer Credit Counselors (which costs them a fee) and receive a certificate, and if they were not reported for fraud, they can open up an account in spite of the ChexSystems records.*

Programs sponsored by credit unions are more likely than bank programs to require a third approach for applicants with blemished banking histories. Eighteen percent of credit union programs, but only one percent of bank programs, restrict applicants to a savings account only and no additional accounts.

Participants also benefit from revised procedures in other areas. Almost no financial institutions require participants to have a minimum credit score, although some respondents note that discussing credit history with participants may benefit those planning to use their IDA savings to purchase a home. One official describes new procedures the bank adopted based on the experiences of earlier graduates of their IDA program:

> *Initially the nonprofit didn't screen for banking histories. After a couple of failures, they started to do that. They actually pulled their credit reports and looked at the feasibility [of their success in the program]*

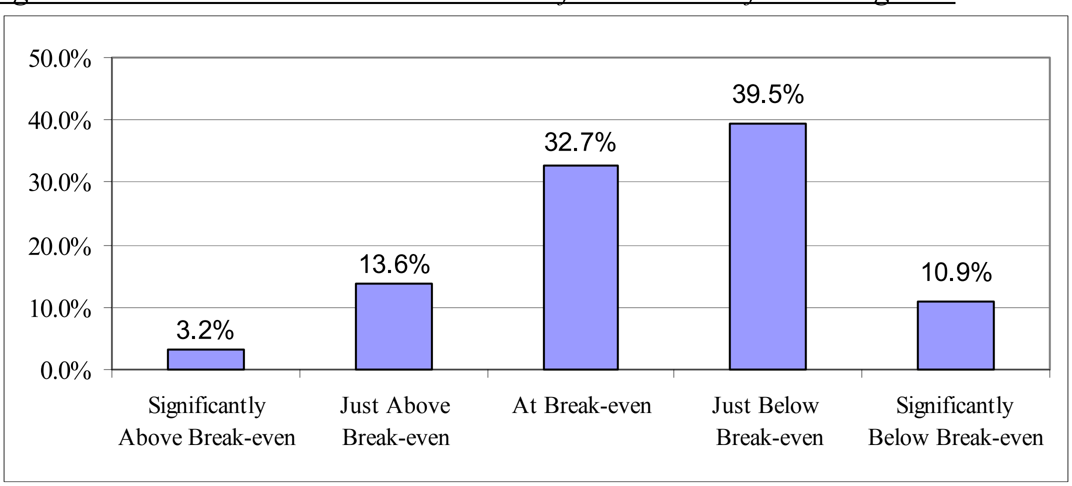
based on a time frame. For instance, typically, the time frame is two years to get through the program. Realistically, based on the individual's income and current outstanding debts, can we get them into a home, or will everything that they do be absorbed into paying off existing collections?

Immigrant and refugee applicants also benefit from policies that allow alternative forms of personal identification. In 63 percent of IDA programs, financial institutions will accept alternate IDs, such as the *matricula consular* sponsored by the Mexican Consulate, as proof of identity for opening new accounts. Among these institutions, acceptance of alternative identification is quite prevalent: 84 percent accept alternate forms of identification for other accounts as well, while only nine percent accept them only for IDA accounts. This indicates that many financial institutions are reaching out to underserved market segments, often aided by their IDA programs.

Financial Review and Profitability

Although 85 percent of financial institutions that sponsor IDA programs are for-profit banks, IDA programs have not been subjected to strict financial scrutiny thus far. It is probable that these institutions' community development orientation toward sponsoring IDAs contributes to relaxed profitability targets in at least the short term. Sixty-five percent of all IDA programs do not have a regular financial review process in place. Interestingly, credit unions are more likely than banks to conduct regular financial reviews (56 percent compared to 31 percent). Financial institutions sponsoring 89 percent of all IDA programs estimated their programs to be operating at a level greater than, just at, or just below the break-even point. (See Figure 11.)

Figure 11: Financial Institutions' Estimate of Break-even of IDA Programs



Source: Center for Community Capitalism Financial Institution Survey of Individual Development Account Programs (2002)

It may be that the nature of the major program administration costs renders accurate financial review of IDA programs infeasible. First, without adequate cost accounting systems, reliable estimates of allocating both direct and indirect costs may not be possible. Second, because IDA programs remains relatively small, they have not received the level of financial review typical of other account programs and services. Costs of running IDA programs are discussed in the next section.

Costs of IDA Programs

Financial institutions are aware that an effectively run IDA program is costly. The expenses fall into two broad categories: lost revenue from reduced or eliminated account fees, and indirect overhead due to additional labor required to maintain the accounts. A senior manager in a regional bank outlines how the revenue model is affected:

> *We don't get the typical monthly fees if account balances go below a certain amount. The cost to do the reports on a monthly basis manually would typically be handled through the fee process. There are no fees to compensate for it because the balances aren't running that high. Then there are the calls back and forth to resolve any issues, so it's really hard to quantify what it really is. I would have to say that the costs pretty well exceed the revenues on this.*

For one manager at a medium-size bank, the major cost component is labor: "If we don't keep this at the bare minimum time for our employees, it's not feasible." A CRA officer envisions that the IDA program needs to develop its own revenue base as a longer-term objective:

> *Community development has to be sustainable. It needs to have some type of business profit-developing mechanism. I don't mean big—just something not in the red. You can't sustain the program without it.*

Notably, representatives of financial institutions that sponsor 27 percent of IDA programs could not estimate the current cost of running their programs. The lack of rigorous cost accounting and review is consistent with the objectives of community development and new customer investment and indicates that temporarily relaxing profitability targets helps meet those objectives. An official at a large bank describes the financial review process this way:

> *I wouldn't say [we evaluate it] regularly. I think we recognized the merits of the IDA program, so we jumped into it and got down the road when we decided to take a look at how it's doing and evaluate it. This is where our learning was relative to our effectiveness and capacity, and the capability of the nonprofit. From our perspective, in terms of monitoring it and*

managing the program, we ask, "What are the costs of being engaged in these situations? What did it mean to service these accounts and fulfill the reporting requirements?" I think we looked at it as something we have to do because of the merits of the program itself and benefits to the individuals participating. We didn't look at it as a cost-benefit analysis.

Long-Term Relationships and Profits

Taking a long-term view rather than relying on a traditional break-even analysis may be a more appropriate approach for financial institutions when evaluating the financial performance of the IDA programs, as explained by one credit union respondent:

It's a function of how you structure the individual accounts. We made the decision in the beginning that this is the way we were going set the account up. We were going to waive the fees relative to the accounts. We were going to pay a somewhat higher return than market on the account. Those were decisions we made that caused this program to not make anything on it. . . Participation in an IDA is good long-term business.

In spite of limited information on financial performance, financial institutions express confidence that IDA participants will develop into longer-term customers. Host institutions for 93 percent of bank programs project the IDA relationship will become profitable as participants become interested in higher margin products. Credit unions also overwhelmingly expect long-term member relationships to emerge from the IDA experience. One official at a large regional bank comments on the potential of long-term profitability and evolving relationships this way:

That's one of the reasons we're in it. I mentioned the potential of homeownership. Somebody [in the IDA program] buys a home and gets a loan through this financial institution, and then it immediately becomes a profitable transaction for us. One of the other purposes [of IDA savings] is to start a business—we can pick up on a business loan, business checking/savings accounts. It is definitely long term, so that's why I believe we're in the program.

In spite of this optimism, the hope has yet to be realized**.** Relatively few IDA programs have "graduates," participants who have successfully achieved their savings goals and completed the financial literacy requirements. Moreover, based on the initial experiences of both former and current participants, long-term profitability faces several potential barriers. A community development officer shares her institution's experience thus far:

We're somewhat disappointed. Even though we hold the IDA accounts, and we're very early into this process, there's no guarantee that these *individuals will come to us for their end loans, such as mortgage loans. We are watching that very closely. We are seeing more and more individuals going to non-traditional banks, and I hold the nonprofits responsible because they. . .are requiring people to shop a minimum of two to three banks to find out what the real costs are. But often times, with this level of borrowers, all they see is the end, the home. Anybody that tells them that they can get them in the home, no matter what the cost is, they're going to work with them. That's an issue for us . . .*

This officer points out a potential conflict between the goals of a financial literacy curriculum and the long-term investment objectives of the financial institutions. Participants are taught and encouraged in the classes to understand the costs of obtaining a home mortgage and to shop around for the best deal available. The borrower's best option may not be with the sponsoring financial institution, but at a competing lending institution instead.

Another dilemma financial institutions face is an overall trend in the mortgage industry. Given the growing availability of low down payment home loans, and down payment assistance, enrolling in a structured savings program may not be as desirable as it was once thought to be. A CRA officer at a regional bank describes it this way:

What I see is that a lot of the folks who participate in this type of product want to buy a house. Now they can look around and see after going through homebuying counseling in 90 days that I can buy a house almost 100 percent financed. Why do I have to go through 24 months of saving money systematically to buy the house? So I wonder, as our bank is selling the IDA and working with nonprofits to put IDAs together, we're also marketing 100 percent financing on first mortgage loans. And so is every nonprofit in town. And so is every other competing lender. What are we doing here—sending mixed messages?

New business development is another of IDAs' three major asset-building goals, but new businesses have a high probability of failure. Financial institutions are particularly concerned about how well IDA participants will be able to launch new businesses, and about the reliability of making long-term revenue projections on these participants. One regional bank official conveys the concern:

I'm skeptical about the number of small businesses that start up and fail and we're telling them, "Okay, if you are willing to work with the nonprofit, you too can own your small business soon, and all you have to do is save $300 a month in the IDA and go to our classes and maybe get some favorable financing from the state and you have your own business."

Limits to Future Expansion

Financial institutions in 42 percent of IDA programs are comfortable with the current business side of IDAs, including account structure, transaction procedures, and policy modifications. However, institutions in 24 percent of all IDA programs that indicate interest in expansion point out internal issues that need to be addressed prior to any large-scale growth. Thirty-five percent of credit unions 30 percent of all large program financial institution sponsors are more likely than their respective bank or small program sponsoring counterparts to see the need to resolve various account management issues to facilitate expansion. These include training staff to handle IDA transaction activities and streamlining reporting requirements to the nonprofit partner. A community development officer discusses the training issues:

> *One thing that we do that might be unique compared to other banks is that we try to identify in a market a specific branch or branches responsible for opening accounts and processing withdrawals. There's a little bit more training that we need to do with employees.*

By limiting IDA account activities to selected branch locations, training issues can be more focused. This alleviates some problems in branches that have significant staff turnovers, as pointed out by one bank official:

> *When you have turnover in branches, it could possibly upset the equilibrium of servicing the accounts. Currently, we are taking all participants in IDAs with the nonprofit partner to one branch location, so the personnel at that one branch are familiar with the procedures of opening the account, and [we] ensure [that] they are properly linked with the master account of the nonprofit.*

Another consideration regarding future expansion is the labor required to service IDA accounts. A senior bank official stresses the time invested by bank employees into the IDA program at the expense of other bank operations:

> *The other issue remaining is the time spent at the branch level by the branch employees. They have to open so many deposit accounts, and generate so much income every month for the bank, or they lose their job. So this [IDA program] is volunteer work for them over and above their regular jobs. So I have to get their permission before I can do an IDA program. I have to get their boss's permission that they can spend their own personal bank time, or personal time in some cases, on the weekends teaching classes to the IDA savers, and usually I don't have any trouble getting people to do that at a branch.*

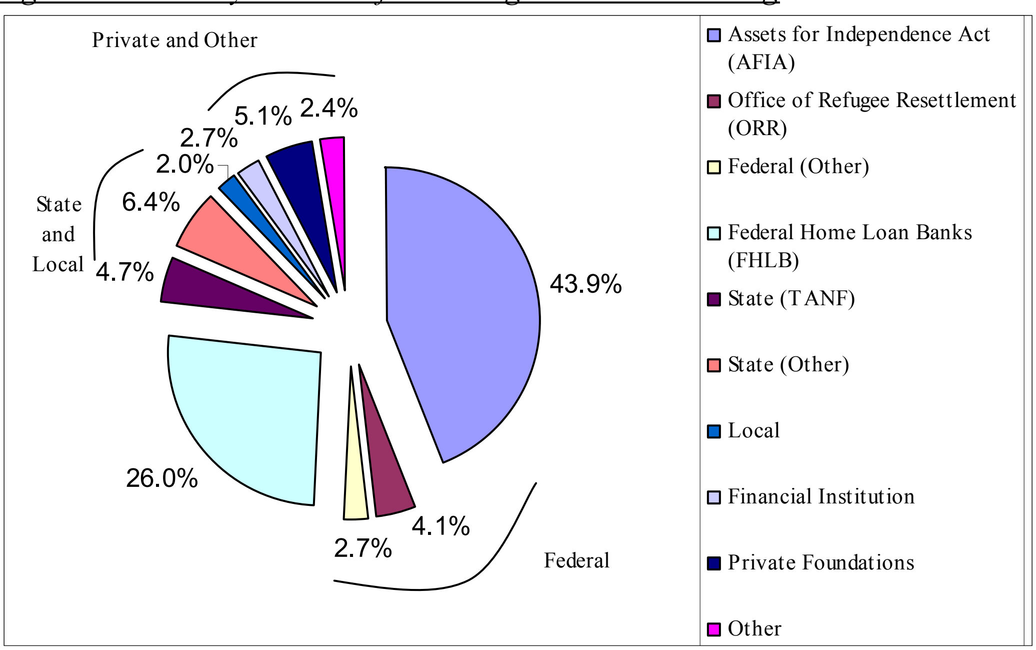
V. THE IMPORTANCE OF PUBLIC FUNDING

While financial institutions have taken a number of important steps to define the business model of running IDA programs, the success of the IDA concept to date is due in large part to the availability of public financing at all levels of government. Public money is used primarily to fund the match portion of the IDA program. Some funding sources also allow IDA sponsors to designate a portion of their allocations to cover the program's administrative costs. In this section, we briefly describe the public funding sources available to IDA sponsors, the relationship between availability of match funding and future program expansion, and interest in the proposed Savings for Working Families Act (SWFA) as a new source of public funding for IDA programs.

Primary Sources of Match Funds

Ninety percent of IDA programs depend on public sources for match funding. (See Figure 12.) Seventy-seven percent of IDA programs receive their primary funding from federal sources, with bank-sponsored programs more likely than credit union programs to tap these funds. An additional 13 percent of IDA programs rely primarily on state and local funding. The remaining 10 percent of IDA programs use mainly private and other sources of funding, especially private foundations; this category includes credit union programs more than bank programs. IDA program sponsors can and do pursue multiple funding sources, both public and private, but public funding of IDA programs remains a vital component for the continued viability of the IDA concept.

Figure 12: Primary Sources of IDA Program Match Funding



Source: Center for Community Capitalism Financial Institution Survey of Individual Development Account Programs (2002)

Federal Sources

Assets for Independence Act (AFIA)

This legislation, allocating funding for five-year demonstration program was enacted under Title IV of the Community Opportunities, Accountability, and Training and Educational Services Act of 1998. Federal funds are provided to selected nonprofit IDA program sponsors equal to non-federal match funding at a one-to-one rate. Program sponsors must secure in non-federal funding the amount equivalent to that being requested from the AFIA demonstration fund. At the time of this writing, approximately $36 million in grants had been awarded to qualified IDA program sponsors. Funding from the AFIA demonstration is due to expire in 2003 and requires reauthorization by Congress.

Office of Refugee Resettlement (ORR)

Housed within the U.S. Department of Health and Human Services, ORR has awarded approximately $10 million since FY 1999 to support IDA programs targeting low-income refugees. ORR program participants have more options for asset purchases than participants in most other IDA programs, because ORR's objective is to assist participating refugees in gaining economic independence. These additional purchase options include automobiles and computers specifically aimed at reaching employment and educational goals.

Federal Home Loan Banks (FHLB)

The FHLB system is a quasi-federal, government-sponsored enterprise chartered by the Federal Home Loan Bank Act of 1932. The system consists of 12 regional banks throughout the United States. Since 1989, the Federal Home Loan Bank system's public policy mission has been expanded to include affordable housing and community development lending. FHLB member banks can take advantage of low-interest-rate credit programs to borrow funds earmarked for housing finance and community development.

Revenues from FHLB lending services fund its granting programs. Each of the 12 member banks has its own first-time homebuyer programs; three of the regional banks' homeownership programs are very similar in design to the IDA concept. FHLB San Francisco offers the Individual Development and Empowerment Account (IDEA) grants, which are available by application to member banks partnered with an IDA program sponsor. Although considered to be an IDA program, the IDEA program has the specific objective that match funds be used for a first-time home purchase. Approximately $16 million of IDEA funds have been awarded since 2001. FHLB Seattle and New York offer funds to member banks to match the down-payment savings of qualified first-time homebuyers in a structured savings program. These banks do not require a partnership with a nonprofit organization.

Other federal sources include Community Block Development Grants from the U.S. Department of Housing and Urban Development. These funds are administered through state and municipal governments, which have spending discretion and may choose to use them as match funding for IDA programs.

State and Local Sources

Temporary Assistance to Needy Families (TANF)

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) permits states to fund IDA programs using TANF funds. States are required to submit plans to the U.S. Department of Health and Human Services describing their proposed allocation strategies. These funds have been used to run state-sponsored IDA programs.

Local legislation

Special state and local allocations have been passed by the respective legislative bodies to fund IDA programs, either through direct appropriations or through tax credits to individuals or organizations that contribute funds to a qualified IDA program sponsor.

Private and Other Sources

Private foundations, community philanthropic organizations (such as the United Way), and financial institutions are among the non-public sources of funding available to IDA programs.

Location of Match Fund Deposits

Overall, financial institutions hosting 65 percent of IDA programs have match funds on deposit as well as the individual IDA accounts. Banks are more likely than credit unions to hold both types of deposits. There are several reasons for the lack of match fund deposits in all financial institutions. Nonprofit IDA program sponsors working with multiple financial institutions may allocate match funds among their partners according to the number of accounts held at each, or nonprofit sponsors may choose to deposit the funds with only one financial institution, based on size, for example. Credit unions may be disadvantaged in these situations, which may explain their decreased likelihood of holding match fund deposits relative to banks.

Fifty-five percent of those IDA programs where match funds are on deposit with the host financial institution receive the funds in a lump sum at the beginning of the program. Although very few institutions cited this as a motivating factor, financial institutions can benefit from significant average daily balances produced by a large, lump sum deposit of match funds that may remain untouched for 18 to 36 months until program participants graduate. In some cases, the revenues generated from these dormant deposits could offset some of the ongoing program costs. Financial institutions, especially credit unions, that do not hold match funds are excluded from a potential revenue source associated with the IDA program.

Under some funding sources, the match funds are not distributed to the program sponsor directly. Member banks in the FHLB programs request reimbursement of the accrued match funds from the FHLB after the participant graduates from the program and makes a qualified withdrawal. For state-run programs in Pennsylvania and Michigan, the accrued match funds are requested by the IDA program sponsor and the funds are remitted from the funding source directly to the vendor of the participant's qualified purchase, whether a mortgage or business lender or higher education/job training institution.

Availability of Match Funds and Program Expansion

Insufficient match funds limit IDA program expansion. Thirteen percent of all IDA financial institution sponsors and 22 percent of credit unions identify lack of match funding as an issue that must be resolved before they can expand their IDA programs. One CRA officer describes the need:

> *Some of our markets would like to offer the accounts, but I think what limits the IDAs is really the match funds, the availability of those for the nonprofit organizations. We can't fund the match for all of the accounts, so we have approached the nonprofits and said, "We really would like to offer this program." But they don't feel that they can arrange for the match funds.*

Financial institutions must work in partnership with a nonprofit organization to apply for nearly all matching funding opportunities. For federal programs such as AFIA and various state programs, the nonprofit organization prepares the application for funding. For example, this IDA program manager describes the role the financial institution plays in applying for funding from the State of Pennsylvania:

> *Well, it is not a direct result of us, it's a result of us finding a nonprofit and having a nonprofit apply for the grant from the state. We are working with two nonprofits right now to help them with their application process.*

The two major exceptions are member institutions of the FHLBs and credit unions that administer IDA programs independently. An FHLB member financial institution submits an application requesting an allocation of match funds based on the institution's projected number of participants. When a participant completes the program and purchases a home, the matching funds are supplied by the member institution and subsequently reimbursed by the regional FHLB from the original allocation of funds.

Self-standing credit union IDA programs may apply for funding under their nonprofit designation.

Support for the Savings for Working Families Act

The Savings for Working Families Act (SWFA) is the most recent federal legislative initiative to expand public funding for IDA programs. If enacted, SWFA would allocate $450 million in the form of tax credits for financial institutions that contribute IDA match funds. The credit would support 300,000 IDA accounts and would be allowed for up to $500 of match funds and up to $50 of administrative and financial literacy expenses per account per year (as long as a $100 balance is maintained by the accountholder). Other sources of match funding could be combined with SWFA funding, and these tax credits could be transferred to other taxable entities. Individuals would qualify based on adjusted gross income (AGI) reported on their previous year's federal income tax return. Qualified uses for the accumulated and match savings are similar to other IDA programs: first home purchase, post-secondary or vocational training, and small business capitalization. Program participants must complete a financial literacy course prior to making a qualified withdrawal.

Because the funding is distributed through tax credits, only for-profit financial institutions (e.g., banks) would benefit from this legislation. However, these tax credits would be transferable to other for-profit entities. Nonprofit financial institutions, such as credit unions, potentially could trade or designate the tax credits to a for-profit third-party organization affiliated with the credit union (e.g., for-profit subsidiary).

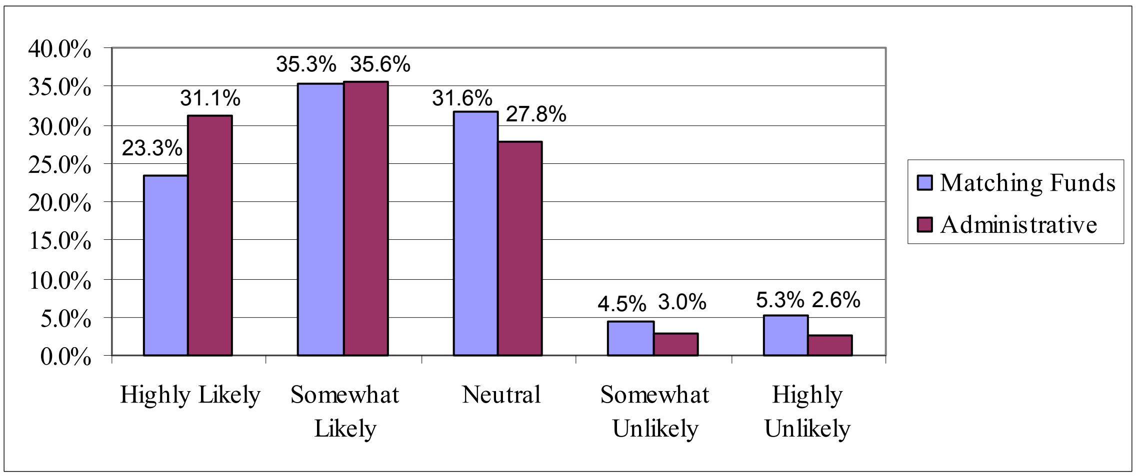
SWFA requires that participating financial institutions take on a number of program-specific and reporting responsibilities as well. These obligations include making information systems meet U.S. Department of Treasury reporting requirements, certifying eligibility of program participants and their qualified withdrawals, waiving service and account fees on IDA accounts, naming the program participant as the owner of the account, and approving business plans for participants using their savings for business capitalization.

A summary of these provisions as contained in the current version of the bill—Title V of the Charity, Aid, Recovery, and Empowerment Act (CARE)—can be found in Appendix D. As of summer 2003, the CARE Act (108th Congress, S. 272) awaited action by the U.S. House of Representatives having passed in the Senate in April 2003.

Despite the potential benefits of SWFA, fewer than half of all financial institutions sponsoring IDA programs (44 percent) are aware of the proposal. Interestingly, credit unions are slightly more likely to know about SWFA than banks, even though credit unions do not benefit directly from the proposal. Specific knowledge of SWFA among those institutions that are aware of the legislation is not significant, as financial institutions in only 36 percent of the IDA programs have participated in any briefings or discussions on SWFA. Educational outreach among the banking community regarding the benefits of SWFA thus remains a priority if the initiative—if ultimately enacted—is to succeed.

In spite of their low awareness level, financial institutions reveal significant interest in the benefits of SWFA and are willing to undertake additional IDA program responsibilities to qualify for the proposed tax credits. Financial institutions that sponsor more than half of all IDA programs indicate they are at least somewhat likely to take advantage of the tax credits offered under SWFA to cover match funds (59 percent) and their administrative costs (67 percent). (See Figure 13.)

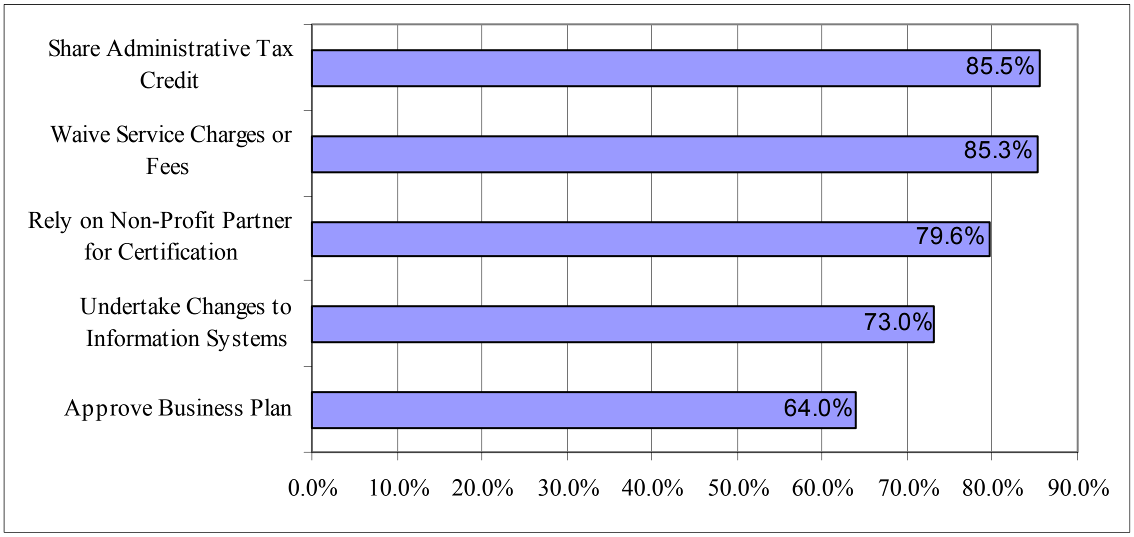
Figure 13: Financial Institution Support for Tax Credits under the Savings for Working Families Act



Source: Center for Community Capitalism Financial Institution Survey of Individual Development Account Programs (2002)

In a sign of the strength of the relationships between financial institutions and nonprofits, and in recognition of the valuable administrative and operational resources the latter offer, financial institutions in 86 percent of IDA programs are willing to share the administrative tax credit with their nonprofit partners. To receive SWFA credits, financial institutions in 80 percent of IDA programs are also willing to rely on their nonprofit partners to certify program eligibility among applicants. (See Figure 14.)

Figure 14: Financial Institution Support for Provisions of Savings for Working Families Act



Source: Center for Community Capitalism Financial Institution Survey of Individual Development Account Programs (2002)

Response to other provisions of SWFA remains supportive and consistent with current practices. Financial institutions in 85 percent of IDA programs are comfortable with waiving account fees and service charges in exchange for receiving the administrative tax credits. This level of support is slightly lower than the 98 percent of IDA programs that currently do not have any account fees or service charges. Seventy-three percent would consider making modifications to their information systems to meet SWFA reporting guidelines. Sixty-four percent of financial institution IDA partners would review and approve business plans for IDA applicants electing to use their savings for business capitalization. Overall, financial institutions present a positive initial reception to the components of SWFA as a viable approach to increasing public funds to help expand IDA programs.

VI. CONCLUSION

This project was designed to fill an important information void in the ongoing policy debates about the best ways to encourage savings and stimulate wealth creation among lower-income Americans. While there is growing literature on Individual Development Accounts (IDAs), including systematic assessments of a handful of pilot programs, most of the literature focuses on program participants and their nonprofit partners. Until now, there has been little systematic information about bank and credit union experience with IDAs despite the central role played by financial institutions in these matched savings programs and the fact that there can be no national IDA program without their broad support and participation.

While not exhaustive, our telephone survey covered 230 financial institutions that collectively sponsor 302 matched savings programs. These include 169 financial institutions that sponsor 240 IDA programs, representing 78 percent of the 216 financial institutions and 71 percent of the 338 programs in the IDA population we identified. We also interviewed officials at 61 member banks of Federal Home Loan Bank (FHLB) system that sponsor 62 matched savings programs designed to help families accumulate down payments for their first home.

Among our most significant policy findings are that currently active financial institutions believe deeply in, and have long-term commitments to, their IDA programs. While they are driven primarily by community development objectives, a significant share take a longer-term view of the role that IDAs can play in helping them develop a new customer base that, while not immediately profitable, likely will become so as their incomes grow and their demand for higher-margin banking products and credit increases.

We also have confirmed the importance of strategic alliances between financial institutions and community-based organizations. Although this is truer for banks and thrifts than for credit unions, strong partnerships not only improve program quality but make IDA programs more cost effective for financial institutions because some of the labor-intensive program elements are conducted and paid for by non-bank sources.

Financial institutions keep program costs down by modestly modifying off-the-shelf products rather than creating new savings accounts for their IDA customers. Their initial participation and future prospects of growing to scale depend on the continual flow of public financing for matching funds. Federal sources are particularly critical, as they are the primary source of match funding for more than three-quarters of all IDA programs. We are unlikely to see significantly more growth in either the number or size of local programs without a larger and more certain source of publicly funded program matching funds. This is why pending federal legislation to create a national IDA program is so important.

The Savings for Working Families Act (SWFA) (the latest version of which is now included in the Bush Administration's faith-based initiative called the CARE Act) passed the U.S. Senate in April 2003, and now awaits action by the U.S. House of Representatives. SWFA would allocate $450 million in the form of tax credits for financial institutions that contribute IDA match funds to their programs. Collectively, these tax credits would generate sufficient matching funds to support 300,000 IDA accounts. As currently structured, SWFA would cap matches for individual savers at $500, and provide an additional tax credit to financial institutions of up to $50 per account to help cover administrative costs and financial education.

Despite the importance of this legislation to the future of IDA policy in this country, fewer than half of all IDA-sponsoring institutions we interviewed had ever heard of SWFA. When informed of its provisions, respondents indicated significant interest in the benefits of SWFA and a willingness to undertake additional IDA program responsibilities to qualify for the proposed tax credits.

Appendix A: Survey Methodology

Phase 1: Conducting IDA Program and Participating Financial Institution Census

A necessary intermediate objective of the research project was to conduct a census of IDA participating financial institutions in the United States. At the time of survey planning, no single database existed of all active IDA programs or the necessary contact information for their nonprofit or financial institution sponsors. To generate such a database, we elected to conduct two censuses. First, we identified to the extent possible the full universe of nonprofit organizations that sponsor IDA programs because nonprofits administering IDA programs are more likely to be involved in formal and informal networks for information-sharing about IDA practice and policy. Second, we sought information from the sponsoring nonprofits about their financial institution partners. We took the following steps:

- We contacted nonprofits sponsoring IDA programs listed on the Corporation for Enterprise Development's (CFED) IDA Network Web site. While this database contained the most comprehensive listing available at the time of data collection, it was limited. Programs were self-identified through voluntary registration, and some contact information was out of date since the program representative was responsible for updating information.
- In states where a statewide collaboration existed, we used information from the collaborative office, if detailed information existed for each program within the state. We also identified additional programs not listed on the IDA Network through the collaboration.
- We matched programs listed on the Assets for Independence Act Web site with programs listed on the IDA Network and identified any new programs.
- We reviewed publications from the community affairs department of each regional Federal Reserve Bank for any nonprofit organizations or financial institutions omitted from our database. We also contacted community affairs officers in the regional banks for assistance in identifying larger IDA programs within their districts.
- Using information gained from all sources listed above, we began making telephone calls. For missing or out-of-date contact information, we used Internet search engines, such as Yahoo and Google, to find any current information.

After identifying a nonprofit offering an IDA program, we contacted the organization directly to ask for basic program statistics, including the number of accounts (opened, active, closed), size of participant deposits (overall, active), funding sources, year program started, and size and location of match funds. In many cases, we encountered general data-related issues. Beyond general program statistics, data availability was low, as program coordinators do not routinely collect the data we requested, possibly due to lack of time, skill, and resources. As a result, we limited our use of these nonprofit-provided data to two measures: match funding sources and number of accounts opened.[11]

We also asked for contact information on the nonprofit's financial institution partner. In some cases, we were only able to obtain information on the financial institution that held the largest number of accounts for each nonprofit. As a result, we may not account for *all* the financial institutions involved in IDAs, especially those that are not the primary institutions for any IDA programs. However, we estimate that the measurement error due to this research design decision is small. When prompted, most nonprofit partners did provide information on multiple banking partners, if applicable.

During the process of identifying IDA programs, we learned of matched savings programs similar to IDAs targeted to first-time homebuyers sponsored by three regional Federal Home Loan Banks (San Francisco, Seattle, and New York) that offer savings programs similar to IDAs targeted at first-time homebuyers. We obtained the names of the member financial institutions participating in these programs.

Phase 2: Survey of Financial Institutions

Survey Instrument Construction

To develop our survey instrument, we interviewed 30 representatives from both the financial institutions and the nonprofit organizations participating in the American Dream Demonstration (ADD) in early 2002. Given their involvement in the initial wave of IDA programs during the late 1990s, we believed that these organizations would share important insights based on their experiences. Each of the interviews was semi-structured to cover topics such as program structure, product characteristics, financial institution/nonprofit relationship, and public policy implications. For the financial institution interviews, we also covered motivation and program costs. We asked respondents to share any particular areas for further research that could assist them in the future. Our interview notes and preliminary findings served as the basis for constructing our survey instrument.

Survey Administration

To conduct our survey of financial institutions, we divided our sample into two groups. First, we employed KPC Research, an independent survey research firm based in Charlotte, N.C., to contact financial institutions participating in IDA programs with 100 accounts or fewer. The survey instruments underwent a pre-test on five cases. Two of the five cases were included in the final data set. KPC interviewers were trained in the objectives of the survey, definitions of specific terminology in the survey instrument, and potential troubleshooting issues encountered during the interview. At least six attempts were made on all cases at different times of the business day on different days of the week. Messages were left in the potential respondent's voice mail on the first attempt

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[11] For number of accounts opened, we used the number provided by the nonprofit only in cases when the financial institution partner was unable or unwilling to provide it.

only if the person was not reached. The interviewer left a brief message identifying himself/herself, the study, and a toll-free number to call to complete the survey. Beginning with the second attempt, if no contact was made, no message was left. The numbers were continually re-opened throughout business hours to be attempted again if no one was reached. An interview date and time was scheduled if necessary. We asked for internal referrals to other institution officials or interviewed replacements when appropriate.

Second, the Center for Community Capitalism conducted surveys of financial institutions involved in programs with more than 100 accounts. These interviews were conducted in-house using the same survey instruments used by KPC. However, we designed the interviews to be semi-structured to allow for additional follow-up questions and responses when appropriate. These interviews were recorded with the permission of the respondents and partially transcribed for selected responses. Each respondent was contacted at least twice, with each contacted respondent scheduled for the interview. Of the 276 interviews completed, KPC Research conducted 245 interviews; the Center for Community Capitalism conducted 31 interviews.

Timing

The census of IDA programs and partnering financial institutions took place between May and September 2002. Our survey of financial institutions was fielded between October 2002 and January 2003.

Analytical Notes

Several coding and research decisions made during the analytical phase are noted below.

Study Population

The study population was comprised of active IDA programs for which we had complete program-level and financial institution contact information from our census. Sixty-two programs were identified in the census but excluded from the study population because they were determined to be inactive or we were unable to obtain complete information for them. We acknowledge that our census may also represent an underestimate of IDA programs and participating financial institutions, as there is no certainty that we were able to identify all existing IDA programs; furthermore, we did not obtain full information from some nonprofit sponsors regarding whether they were involved in multiple IDA programs with multiple financial institution partners. Our study population consisted of 216 financial institutions sponsoring 338 IDA programs.

Additionally, we included 123 FHLB member institutions engaged in 125 FHLB-sponsored first-time home buyer programs in Seattle and New York regions.[12] A third Federal Home Loan Bank, San Francisco, also disbursed funding for first-time homebuyers to nonprofit host organizations that ran IDA programs. Because the arrangements are more similar to a typical IDA program, we include programs receiving funds from FHLB San Francisco with other conventional IDA programs.

Based on a state-level review of our census, we note that some states may be underrepresented due to the lack of information. We highlight Minnesota as one of the states where we encountered difficulties in obtaining information for programs from the state collaborative. Other states without any representation in our census include Alabama, Kansas, Mississippi, North Dakota, South Dakota, and West Virginia.

Unit of Analysis

Our unit of analysis is the IDA program as implemented through the partnership between the financial institution and the IDA program sponsor. In our survey strategy, we allowed for multiple responses from within the same financial institution. Twelve percent of financial institutions were involved in multiple programs. This was important since program characteristics may vary, especially for financial institutions with decentralized IDA infrastructures and branches located over a wide geographic region. Because 36 percent of the responses came from financial institutions involved with multiple IDA programs, we decided significant information would be lost if these responses were collapsed by financial institution. Furthermore, by making the IDA program the unit of analysis, we avoided the assumption that one response from a branch affiliate represented the other branch affiliates within the same financial institution. Some relationships could be unique to a particular branch location and should not be applied to others, including those that did not to respond to our survey.

Weights

Eight financial institutions with multiple program involvement responded to our survey with collective information (i.e., one respondent provided information for multiple relationships for which the financial institution is involved). We applied frequency weights to these cases, based on the number of programs the response represented and assumed that all programs represented by the single respondent had the same characteristics, unless otherwise noted.

Survey Sample

We obtained survey response data from a total of 230 financial institutions sponsoring 302 savings programs. To ensure representativeness, we compared our achieved sample with the original survey population along several dimensions: type of financial institution,

[12] We identified 130 FHLB members offering 133 matched savings programs sponsored by the FHLBs of New York and Seattle. However, seven of those financial institutions offer both IDA and FHLB programs, and were included in the IDA institution/program totals.

asset size (by institution), asset size (by program), and geographic distribution. We found that our achieved sample did not differ substantially from the survey population. (See Table 3.) For example, in the achieved sample, 81 percent of the financial institutions were banks, compared to 80 percent in the study population. In terms of the number of bank institutions and bank-run programs, the difference in distributions was within (+/-) five percent. For the credit unions, the range of differences was slightly larger due to the smaller sample size (at (+/-) seven and one-half percent). Thus, large credit unions (i.e., greater than $250 million in assets) were slightly underrepresented in the achieved sample, while small credit unions (i.e. between $1 and $50 million were slightly overrepresented. In terms of location, the difference in regional distributions was within (+/-) four percent.

Table 3: Comparison of Distributions (Survey Population and Achieved Sample)

	By Institution					By Program				
	Population		Sample		Difference	Population		Sample		Difference
Banks	274	80.8%	182	80.2%	0.6%	405	86.0%	257	85.1%	0.9%
Credit Unions	65	19.2%	45	19.8%	-0.6%	66	14.0%	45	14.9%	-0.9%
Total	**339**	**100.0%**	**227**	**100.0%**		**471**	**100.0%**	**302**	**100.0%**	

Banks	**Population**		**Sample**		**Difference**	**Population**		**Sample**		**Difference**
Less than $250 Mil	74	27.0%	43	23.6%	3.4%	79	19.5%	44	17.1%	2.4%
$250 Mil up to $500 Mil	63	23.0%	33	18.1%	4.9%	63	15.6%	34	13.2%	2.3%
$500 Mil up to $1 Bil	33	12.0%	21	11.5%	0.5%	38	9.4%	25	9.7%	-0.3%
$1 Bil up to $20 Bil	74	27.0%	57	31.3%	-4.3%	104	25.7%	74	28.8%	-3.1%
$20 Bil to $50 Bil	17	6.2%	16	8.8%	-2.6%	48	11.9%	39	15.2%	-3.3%
Greater than $50 Bil	13	4.7%	12	6.6%	-1.8%	73	18.0%	41	16.0%	2.1%
Total	**274**	**100.0%**	**182**	**100.0%**		**405**	**100.0%**	**257**	**100.0%**	

Credit Unions	**Population**		**Sample**		**Difference**	**Population**		**Sample**		**Difference**
Less than $1 Mil	5	7.7%	5	11.1%	-3.4%	5	7.6%	5	11.1%	-3.5%
$1 Mil up to $50 Mil	30	46.2%	23	51.1%	-5.0%	30	45.5%	23	51.1%	-5.7%
$50 Mil up to $100 Mil	6	9.2%	2	4.4%	4.8%	6	9.1%	2	4.4%	4.6%
$100 Mil up to $250 Mil	9	13.8%	8	17.8%	-3.9%	10	15.2%	8	17.8%	-2.6%
Greater than $250 Mil	15	23.1%	7	15.6%	7.5%	15	22.7%	7	15.6%	7.2%
Total	**65**	**100.0%**	**45**	**100.0%**		**66**	**100.0%**	**45**	**100.0%**	

	By Location				
	Population		Sample		Difference
Midwest	131	27.8%	95	31.5%	3.6%
Northeast	87	18.5%	48	15.9%	-2.6%
South	96	20.4%	68	22.5%	2.1%
West	157	33.3%	91	30.1%	-3.2%
	471	**100.0%**	**302**	**100.0%**	

Source: Center for Community Capitalism Financial Institution Survey of Individual Development Account Programs (2002)

Institutions Offering Both IDA and FHLB Programs

Seven financial institutions offered both conventional IDA programs and the FHLB savings program from FHLB New York and Seattle. These seven institutions were removed from analysis of the number of financial institutions, but remain in analyses of IDA partnerships.

Program Size and Account Information

To calculate program size, we relied on the report of the number of accounts overseen by the financial institution as being most reliable. However, in the financial institution survey, 65 respondents did not provide this information, and to impute a credible value for these cases, we used the following decision rules: If the corresponding nonprofit indicated that it partnered with only one financial institution or we have record of only one institutional partner, we used the active account information provided by the nonprofit during the IDA program census. If the nonprofit partnered with multiple institutions and these other financial institutions provided active account information, we took the net difference between the total active accounts (from the nonprofit partner) and the active accounts provided by the financial institutions. For the remaining cases, we assumed equal distribution of net active accounts among the number of financial institution partners.

Financial Institution Assets

We used asset information available through the Federal Deposit Insurance Corporation (FDIC) (commercial banks and thrifts) and National Credit Union Administration (NCUA) (credit unions) Web sites. We linked our information for the financial institution with its corporate parent. In the case of bank holding companies, we used asset information for the largest institution in the holding company. We avoided using information for subsidiaries such as credit card divisions and state banking organizations. In the case of bank holding companies that have resulted from a merger, we used asset information for the newly created entity. Asset information was based on reports as of September 30, 2002.

Appendix B: Sample Partnership Agreement

Memorandum of Agreement/Understanding

This agreement is made this ____ day of _______________, 20____, by and between the *Sponsoring Organization*, a not-for-profit organization, herein referred to as "the Sponsor", and *The Bank*, a federally insured, state chartered financial institution, herein referred to as "the Bank", for the purpose of creating and maintaining Individual Development Accounts for the benefit of (eligible Participants), pursuant to the Assets for Independence Act, P.L. 105-285, 42 U.S.C. Sec. 604.

The Sponsor and the Bank agree to the following:

1. **General Role of the Bank:** The Bank is designated as a depository institution for eligible persons, herein referred to as "Participants", enrolled in the Individual Development Account (IDA) program created and administered by the Sponsor.

2. **Account Creation and Participant Enrollment:** Participants may create and establish an IDA with the Bank upon enrollment in the Sponsor's IDA program. The Sponsor shall have processed and approved an application for Participant enrollment, shall have provided the Bank notification of Participant eligibility and enrollment and obtained a release of information from the Participant prior to creating and establishing an IDA with the Bank.

3. **Number of Accounts:** The Bank will provide up to ___ Participant IDA accounts to be opened during calendar years _____ to _____.

4. **Savings Plan Agreements:** The Sponsor will establish a "Savings Plan Agreement" with each Participant, which includes but is not limited to: (a) establishing a savings goal, including a proposed schedule and amount of savings deposits; (b) establishing a savings purpose, including home purchase, post secondary education, microenterprise capitalization or others determined jointly by the Participants and the Sponsor pursuant to program guidelines; (c) deposit "match" committed by the Sponsor; (d) Participant training or education programming required by or through the Sponsor; (e) contingency plans and penalties in the event Participant fails to meet goals or schedules; and (f) provisions in the event of the Participant's termination, including death.

5. **Participant Account Descriptions:** Participant IDA accounts will be "non-custodial". Accounts will be in the individual Participant's name. Participants will be able to perform all account transactions, including withdrawals, and will be responsible for administering accounts in accordance with the written governing instruments and Savings Plan Agreement for IDA Participants. The Bank will provide duplicate monthly statements to the Participant's approval.

6. **Participant Account Features:** Participant IDA accounts will have no minimum opening deposit amount; no minimum balance; and no monthly service charges or fees. Interest will be paid monthly at current statement savings rate. Accounts will be opened using the Bank's standard account opening procedures.

7. **Participant Account Deposits:** Deposits to Participant's IDA accounts shall be in the form of cash, check, or electronic funds transfer, to or on behalf of Participant. Deposits to the Participant's IDA account shall be made no less frequent than quarterly.

8. **Withdrawals from Participant IDA Account:** Withdrawals from Participant IDA accounts should be limited by the savings goals, savings purposes, and emergencies as described in the individual Participant's Savings Plan Agreement. Participant IDA account withdrawals should be reviewed and reconciled with the Sponsor's designee per the Savings Plan Agreement.

9. **Sponsor's Match Commitment:** The Sponsor will commit to "match" Participant account deposits consistent with the individual Savings Plan Agreement ("4c" above) and pursuant to the caps established by the Assets for Independence Act Program - $2,000 per individual or $4,000 per household.

10. **Sponsor Matching Pool Account Description:** The Sponsor will established one (1) "Matching Pool Account" for the deposit of "matching funds". The balance in the Matching Pool Account is the aggregate of deposits and interest earned for all Sponsor matching funds on behalf of program Participants. The Sponsor shall be responsible for the accounting of the portion due each Participant from the Matching Pool Account.

11. **Sponsor Matching Pool Account Features:** Sponsor Pool accounts will have no minimum opening deposit amount; no minimum balance; no monthly service charges or fees; and no ATM transactions. Interest will be paid monthly at current statement savings rate. Accounts will be opened using the Bank's standard account opening procedures.

13. **Sponsor Matching Pool Account Deposits:** Deposits to Sponsor Pool accounts shall be in the form of cash, check, or electronic funds transfer, to or on behalf of the corresponding Participant. Deposits to the parallel accounts should be made concurrently, or within a reasonable period, with deposits made to Participant IDA accounts.

14. **Co-mingling of IDA Program Funds and Deposits:** The Bank will not permit co-mingling of IDA funds intended for deposit in the Participant IDA Accounts.

15. **Bank Accounting and Reporting:** The Bank will follow accounting procedures in account management conforming to guidelines established by regulation. The

Bank will assist the Sponsor in its efforts to prepare data and reports as may be required.

16. **Other Bank Support and Participation:** The Bank may engage in referring potential Participants; providing information about financial education; making staff available for on-site technical assistance; and providing workshops regarding homeownership, personal finance, small business loans, or other financial products and services in support of the Sponsor's IDA program.

17. **Termination of Participation:** The Sponsor is responsible for notifying the Bank and the Participant of any Participant's termination from the IDA program. Notification shall be written and include instructions regarding Participant balances maintained in the Sponsor's Matching Pool Account.

The terms of this agreement, as well as the need for program modifications or additions, shall be reviewed not less than every six months beginning with the date of this agreement by designated representatives of the Bank and the Sponsor.

By __________________________	*By* ______________________________
For: Sponsoring Organization	*For:* The Bank

Appendix C: Models of State Level IDA Collaboratives

Currently, statewide IDA collaborations fall into five general categories. In most states, an organization—typically a community development corporation—oversees a statewide effort to execute IDA programs through direct and indirect efforts. The host organizations convene working groups among interested parties, seek funding, and serve as lead agencies in their respective collaboratives. Currently, states such as Hawaii and Maryland regularly meet to share best practices, coordinate training, and consider legislative lobbying strategies to promote IDAs.

Approximately seven states have direct administrative support mandated through their legislatures. Five states, including New Jersey and Indiana, have programs organized, funded, and administered by an administrative office within state government. In two states, Michigan and Minnesota, the government has commissioned a program but relies on partnerships with third-party organizations to run the program. A public/private partnership in Michigan allowed for a matching of funds by both parties.

States in the two final categories have distinct operating philosophies. In Colorado, the statewide effort is considered to be one program, with multiple agencies working in cooperation and sharing responsibilities in program execution. In California, due to the presence of several large regional collaboratives, the statewide effort is primarily focused on legislative lobbying, networking, and training opportunities, rather than direct program administration and execution.

Many of these statewide collaborations emerged out of joint proposals to funding sources, such as AFIA. Furthermore, smaller regional collaborations exist, as local United Way offices and governments (i.e., city and county) partner to sponsor programs for targeted areas.

Centralization of program operations and services vary from state within each category. When centralized, functions such as administrative record keeping, reporting, marketing, fundraising, lobbying, and program development typically are handled by the collaborative office. A primary driver for greater centralization is whether the collaboration formed prior to the commencement of the IDA program. Collaborations in Delaware, Massachusetts, and South Carolina are among those that began as the result of joint AFIA proposals, which allows for the collaboration to take on a more centralized structure, if desired , among members. The Louisiana program may be more centralized in its delivery, as it contracts with agencies within its network to handle case management, rather than having agencies oversee this element of the program on their own.

The strategy to consolidate financial institution partners varies from state to state. Potential barriers in centralizing to fewer financial institution partners among collaborative members include general service levels offered by the partners; the desire of program sites to offer a choice in financial institution for its participants; and accessibility of branch locations within the service areas of program sites. Location is a primary concern, especially among rural program sites. Indiana requires that each program site have a letter of commitment in place with a financial institution prior to applying for funding with the state. In some cases, such as Iowa and South Carolina, match funds may be on deposit with one financial institution, especially if the lead agency is serving as the fiscal agent for the collaboration.

However, in Missouri, Louisiana, and New Jersey, banking partners are more involved in the planning and training elements of program development. A representative of a regional bank participated in training meetings in Missouri. In Louisiana, a local bank led the effort to mobilize a regional collaborative in New Orleans that serves as the core of the statewide collaboration. In New Jersey, financial institutions participated in the early planning phases by serving on various advisory committees and provided operating grants. In return for receiving operating support, the financial institution requires of the agency that its participants make their deposits with their bank. In Michigan, a major regional bank has expressed strong interest, working with nine of 10 programs in the western part of the state.

Appendix D: Savings for Working Families Act (Title V of CARE Act of 2003)

(as of February 2003)

Provision	Language
Eligibility (qualified individuals)	- Adjusted Gross Income (AGI) cannot exceed \$18,000 (single), \$30,000 (head of household), or \$38,000 (married) – based on previous year's federal tax return, which must be filed in order to participate. - Citizens and legal residents of the United States ages 18 through 60, except full-time students. - Accountholder can pay qualified expenses of spouse or dependent.
Allowable uses (qualified expenses)	- First home purchase. - Small business capitalization or expansion. - Post-secondary education and vocational training.
Federal tax credit	- Qualified financial institutions (those that can hold an IRA) would be eligible for a tax credit for the aggregate amount of matching funds provided (up to \$500 per person per year), plus an annual \$50 credit per account to maintain the account and provide financial education. A \$100 minimum balance (not including the match) must be maintained by the accountholder in order for the financial institution to claim the \$50 credit. - Allows the tax credit to be transferred, thus enabling credit unions to participate.
Matching funds	- IDA savings matched by a Qualified Financial Institution on a one-to-one basis, up to \$500 per year (there is no lifetime cap). - State, local and private sector sources may contribute matching funds to the accounts in accordance with their own matching ratios.
Sources and limits on individual deposits into accounts	- No restrictions on source of deposits: if one is eligible based on prior year's AGI, then any deposit will be considered valid, whether from earned income, disability payments, gifts, etc. - Annual deposits are limited to \$1,500.
Federal tax treatment of accounts	- Individual deposits post-tax. - Interest on individual deposits taxable. - All matching funds and interest non-taxed, both at time of deposit and when withdrawn for qualified expenses.
Penalties for withdrawal of individuals' own savings	- No penalty, but accountholder loses corresponding matching funds for withdrawals of their own money for non-qualified uses.
Role of nonprofits and tribes	- The bill neither specifically allows or prohibits financial institutions to collaborate with other entities, whatever they may be. So a broad range of partnership are possible, although Treasury is expected to provide further guidance on the nature and scope of such partnerships.
Role of financial institutions	- Qualified financial institutions will hold all accounts and matching funds.
Financial education training	- Required before asset can be purchased but with waivers for "hardship" and "lack of need."
How asset purchased	- Funds paid directly from both accounts (individual and match accounts) to asset provider, upon approval of qualified financial institution. In addition, there will be a one-year holding period of matching funds to allow time for previous year's tax return to be filed, income verified, and assurances that accountholder has only one IDA authorized under the SWFA.
Legal structure of the account	- Individual's savings: account owned by the eligible individual. - Matching funds: kept in separate, parallel account.
Program certification	- IDA programs must meet quality standards as specified by the Secretary of the Treasury.
Administering agency	- U.S. Department of the Treasury.
Reporting and evaluation	- All qualified financial institutions must participate in regular monitoring and reporting. - The Secretary will conduct a rigorous final report on the effectiveness of IDA tax credit, including recommendations for reauthorization of the credit.
Applicable years, cost, and allocation of accounts	- The cost of the bill is estimated to be \$450 million, which will be met by capping the number of accounts at 300,000. The Secretary will allocate the accounts in three tranches of 100,000 accounts.

Source: Corporation for Enterprise Development (CFED) – IDA Network